FINANCIAL TIMES

World Business Newspaper

MONDAY JUNE 17 1996

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South Korea's vaulting ambition
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Lucy Kellaway
Fun and laughter in the workplace
Management, Page 10

Media futures
Cybersoaps could be really big
Page 13

Brussels hopes for E European nations to join EU by 2002

The European Commission has identified 2002 as the earliest probable date for accession of former communist countries in central and eastern Europe to the European Union. There were widespread hopes that the first wave of countries would be admitted in 2000, but the presumption in Brussels now is that an advance guard of the Czech Republic, Poland and Hungary will not join until at least 2002. Page 18

Bosnian Croats stay with own state: Bosnian Croats have ignored the Dayton peace accords, naming a new separatist government for their self-styled state in Bosnia, local radio reported. Page 2; Editorial Comment, Page 17

IG Metall official expected to step down: Werner Schreiber, a leading official of IG Metall, is expected to step down as treasurer of Germany's biggest trade union after a magazine report that it had lost around DM130m ($84m) on property deals relating to its new Frankfurt headquarters. Page 18

European Results Analysis

The Financial Times today publishes a comprehensive analysis of European company results for 1995. The review, by the FT's industrial specialists and Lex team, covers 20 industries and details the top companies by turnover in each sector.

Austrian economics minister named: Johann Farnleitner, a deputy secretary general at the Austrian Federal Economic Chamber, was named Austrian economics minister to succeed Johannes Ditz, who stepped down last week. Page 2

Brokers raise growth forecasts: Leading broking houses have lifted economic growth forecasts for Germany and France, Europe's most important economies, and expect stronger growth to boost shares in some sectors. Page 19; European financial results, Pages 23-25

...ases, the contract catering group, is to ...nce that it is paying FFr590m ($113.5m) to ...t the interest in Eurest France held by its ...dexho. Page 19

...anies 'to increase property holdings': ...er cent of UK companies are planning to ... their property holdings over the next six ... a survey found, with the strongest demand ... come from the retail sector. Page 8

...e to reverse arms spending cuts: Greece's Socialist government has reversed plans to cut defence spending, and is preparing to announce new weapons purchases in response to a Turkish arms build-up and what it sees as a threat to Greek islands in the Aegean. Page 2

Churchill, one of the UK's largest telephone-based motor insurers, is setting up a network of garages to do crash repairs for the company's 600,000 motor policy holders in an effort to control costs in the market. Page 19

BICC, the international cables and construction company, has signed a £17m ($26m) deal to build a power cables plant in India. The UK-based group has linked with RPG, the Indian cables manufacturer, to tap the country's £1bn-a-year cables market. Page 20

Successful Ariane lift-off: Europe's 87th Ariane rocket placed a satellite into orbit after a launch from French Guiana at the weekend – the first launch since the failure 11 days earlier of its new Ariane-5 rocket. Page 4

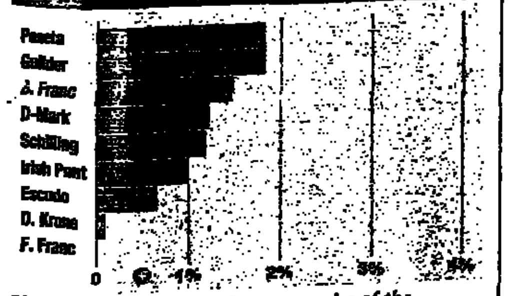
Time running out for British beef accord: The UK beef crisis enters its most crucial week since the ban was imposed on March 27, with a frantic round of meetings fixed in an attempt to reach agreement by Friday. Page 18

Euro 96 football results: In the Euro 96 football competition Germany beat Russia 3-0 in their group match in Manchester and Croatia beat Denmark 3-0 in Sheffield. Spain drew 1-1 with France on Saturday in Leeds and England defeated Scotland 2-0 at Wembley. Spot the Balkan banker, Page 12

Motor racing: Britain's Damon Hill, driving a Williams, won the Canadian Grand Prix. Jacques Villeneuve, also driving a Williams, finished second with Jean Alesi third in a Benetton.

European Monetary System: The Spanish peseta moved to the top of the EMS grid last week although the spread between the weakest and strongest currencies in the grid was broadly unchanged. The Irish punt fell three places as it was dragged lower by the weakness of the pound sterling. The Danish krona moved off the bottom of the grid to be replaced by the French franc. Currencies, Page 31

EMS Grid June 14, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Global effort to support copper

Central banks and regulators act after Sumitomo's $1.8bn loss

By Kenneth Gooding, Mining Correspondent, in London

A co-ordinated effort, involving central banks and regulators in the UK, US and Japan, has been launched to prevent a copper market collapse in the wake of Sumitomo Corporation's revelation that a senior trader concealed losses of $1.8bn.

The banks and regulators are hoping to restore reasonable stability to the London Metal Exchange's copper market and prevent a potentially disastrous drop in the metal's price that would have financial repercussions around the world.

The efforts – understood to involve the Bank of England, the Bank of Japan and regulatory authorities in the UK and the US – were intensified at the weekend because pressure on prices will reach a peak today. For technical reasons, much of this month's futures business will be completed in a few hours this morning.

Meanwhile, Sumitomo Corporation was forced to deny yesterday that its president, Mr Tomiichi Akiyama, was planning to "virtually resign" as a way of taking responsibility for the losses. There were previously reports that Mr Akiyama planned to retreat to an advisory post, depending on how the investigation by US and British authorities developed.

It is believed the main thrust of the international effort is to achieve a behind-the-scenes settlement of Sumitomo's outstanding contracts on agreed terms. Traders suggested the Japanese group had contracts on between 50,000 and 100,000 tonnes of copper to be unwound.

If a settlement could be agreed, it would prevent a resumption of the ferocious battle for supremacy in the LME's copper market that has been going on for some weeks between US hedge funds, intent on driving the price down, and Sumitomo which, when Mr Yasuo Hamanaka, its former senior trader, was in charge, was determined to keep the price up.

Traders pointed out yesterday that the US funds – Mr George Soros's Quantum fund and Mr Julian Robertson's Tiger fund – did not necessarily have the upper hand. Sumitomo had other competent traders apart from Mr Hamanaka and control of a substantial part of the LME copper stocks.

One trader pointed out: "Sumitomo's president has contacted all counterparties to reassure them that all his group's outstanding obligations will be met, but he has no reason to let Sumitomo be taken to the cleaners by the funds.

"To use a military analogy, as a defending force you don't roll over against an attacking force, you make sure you take a few of them with you."

Meanwhile, Mr David King, the LME's chief executive, again yesterday denied that he had not taken action in 1991 when a London trader reported that Mr Hamanaka had asked for a backdated invoice for a fictitious copper trade.

Mr King said the documents were passed by the LME to the UK Securities Investment Board and the Securities and Futures Authority and discussions also took place with Sumitomo. But he was not at liberty to reveal the outcome.

"When the dust settles, there will be a good story to tell of regulatory and investigative systems working very well indeed," Mr King said.

Move to avoid meltdown, Page 3
Editorial Comment, Page 17

Early election results indicate head-to-head contest with communist rival Zyuganov

Yeltsin set for second round fight in race for presidency

By Chrystia Freeland and John Thornhill in Moscow

President Boris Yeltsin and Mr Gennady Zyuganov, his communist rival, looked set for a head to head battle for the Russian presidency in a second round of voting next month, as early exit polls and partial results put the two men far ahead of the other eight candidates.

With 7 per cent of the ballots counted, the Central Electoral Commission said Mr Yeltsin was in first place with 32.3 per cent, closely trailed by Mr Zyuganov at 29.14 per cent. In a surprisingly strong performance, Mr Alexander Lebed, a retired general running on a nationalist ticket, was in third place with 15.87 per cent.

A CNN exit poll of 10,000 voters gave Mr Yeltsin the support of 35 per cent, Mr Zyuganov 29 per cent and Mr Alexander Lebed 15 per cent.

Preliminary returns from the Russian Far East and Siberia showed Mr Yeltsin slightly ahead of his communist opponent in most regions, although in the Kuzbas, a mining area in the heart of Siberia, Mr Zyuganov led with 40 per cent of the vote, almost double the president's showing.

Early indications are that the biggest surprise of the ballot could be the emergence of Mr Lebed, a charismatic leader whom many analysts had written off after his party's poor showing in December parliamentary elections, as one of Russia's most important politicians.

Mr Yeltsin's aides were hoping that Mr Lebed would make it into third place and have already mooted the idea of a deal with the maverick general before the decisive second round of voting.

Early estimates suggested that 60-65 per cent of voters had cast their ballots, a lower than expected turnout which some of Mr Yeltsin's aides feared would hurt the president's chances for re-election.

The 105m Russians eligible to vote in their country's first democratic selection of a national leader faced a critical choice between the bold but imperfect reforms launched by Mr Yeltsin five years ago and Mr Zyuganov's promises of a return to the security of the communist past.

Mr Yeltsin's team, which has fought the campaign with an unexpected ferocity, became flustered yesterday, when initial returns showed lacklustre participation. A low voter turnout is thought to favour the communists, whose supporters are more likely than those of Mr Yeltsin to vote.

Although political campaigning is banned on election day, the president's backers made an 11th hour-plea to get out the vote.

In a comment repeatedly broadcast on the main television channels, Mr Victor Chernomyrdin, the prime minister, warned Russians "not to trade your future for an extra hour in front of your television sets or at your dachas and garden plots".

Bitter memories cloud vote in Volgograd, Page 2
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President Boris Yeltsin (left) and Gennady Zyuganov, his chief rival in the Russian presidential election, cast their ballots yesterday at Moscow polling stations. Early exit polls suggest the pair will face a second round of voting to decide the presidential race. Pictures: Reuter and AP

UK bomb hardens stance on Ulster talks

By John Kampfner in London

A restoration of the IRA's original ceasefire announcement will no longer be enough to allow Sinn Féin, its political wing, into all-party talks in Northern Ireland after Saturday's bomb attack in Manchester, the British government indicated last night.

As several of the more than 200 injured continued to receive hospital treatment, politicians in London, Dublin and Belfast significantly hardened their stance against republicans.

Unionists called for a return of internment, including the arrest of senior Sinn Féin strategists. Irish leaders openly cast doubt on the ability or willingness of Mr Gerry Adams, the Sinn Féin president, to engage in what remains of the peace process.

The Irish government meets tomorrow to review its approach towards Sinn Féin.

Mr John Bruton, the Irish prime minister, said the bomb – detonated in the heart of Manchester's main shopping area as the city was full of tourists, including thousands attending the Euro 96 football tournament – was "a slap in the face to people who've been trying, against perhaps their better instincts, to give Sinn Féin a chance to show that they could persuade the IRA to reinstate the ceasefire".

Large areas of the north-western city were still cordoned off last night, although the Germany v Russia football game took place as planned.

Manchester's chief constable said the device, made up of up to 1,000lb of fertiliser-based explosive, was at least as big as the one which devastated London's Docklands. That attack, on February 9, marked the end of the IRA's 17-month ceasefire.

Mr Michael Howard, home secretary, said: "No one is going to be taken in. You can't have a situation in which there's a bomb in Manchester on Saturday and the announcement of a ceasefire on Monday and people

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Netanyahu signs two deals in race to form government

By Julian Ozanne in Jerusalem

Israel's prime minister-elect, Mr Benjamin Netanyahu, who is racing to put together a government ahead of today's opening of parliament, yesterday signed agreements with two key coalition partners. But he failed to resolve a crisis with a third party vital to giving his administration a parliamentary majority.

Mr Netanyahu was last night also facing a deepening crisis within his own rightwing Likud party after he asked Mr Jacob Frenkel, central bank governor, to join his government as finance minister.

The move further reduced top cabinet jobs available for Likud leaders, including Mr Ariel Sharon, the hawkish former general who has threatened to stay out of the government unless he received the Treasury job.

The prime minister-elect's scramble to form a government came as an Arab youth killed an Israeli policeman in the West Bank, putting further pressure on the incoming prime minister to respond to terrorism days before Arab leaders gather in Cairo to co-ordinate Middle East peace policy.

Mr Netanyahu signed coalition pacts with the National Religious party and the ultra-orthodox Shas, two Jewish religious groups which will be the backbone of his fragmented coalition.

The agreements gave Mr Netanyahu control of 51 of parliament's 120 seats. Mr Netanyahu, who remained hopeful of meeting his self-imposed deadline, was expected to hold talks throughout last night with potential government partners.

Leaders of Yisrael Ba'Aliya, the party led by Mr Natan Sharansky representing immigrants from the former Soviet Union, said talks with Mr Netanyahu were "completely deadlocked", preventing the incoming prime minister from an early announcement of his administration.

Mr Yuli Edelstein, the leading Yisrael Ba'Aliya negotiator, said his party disagreed with Mr Netanyahu both on the future government's policy guidelines on religion and on the distribution of cabinet posts.

He said he could not understand how Mr Netanyahu could go ahead and sign bilateral agreements with religious parties that would determine policy guidelines unacceptable to his party.

"With what we have been offered it is impossible to fulfil any of our pre-election promises and there is a possibility that we will stay in opposition," he said.

"The only way we will be able to participate would be if the whole negotiations were renewed and everything signed today was reopened for discussion."

Without Yisrael Ba'Aliya's seven parliamentary seats it is unlikely that Mr Netanyahu will be able to form a majority government behind his "peace with security" policy.

Political commentators said yesterday's agreements were clearly intended to force Yisrael Ba'Aliya into accepting Mr Netanyahu's terms.

Albania	Lek 220	Germany	DM4.00	Lithuania	Lita 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr76	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.80	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	Ekr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

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Athens sees Turkish 'threat'

Greece to reverse arms spending cuts

By Edward Mortimer and Kerin Hope in Athens

Greece's Socialist government has reversed plans to cut defence spending, and is preparing to announce new weapons purchases in response to a Turkish arms build-up and what it sees as a threat to Greek islands in the Aegean.

But in doing so, Greece may have to increase its government borrowing and imperil its qualification for European monetary union.

Mr Gerasimos Arsenis, the Greek defence minister, said in an interview at the weekend that yearly military spending over the next five years would rise well above the current 4.6 per cent of gross domestic product - one of the highest ratios among Nato members.

"The theatre of threat is the Aegean," Mr Arsenis said, referring to Greek disputes with Turkey over seabed minerals, airspace control and Greek troop deployments on some Aegean islands. "We haven't pushed the panic button, but we've got to be ready for any eventuality."

While relations between the two Nato allies countries have been strained for many years, Turkey's latest move in questioning Greek sovereignty over Gavdos - an inhabited island which Mr Arsenis said "is close to Libya but far away from Turkey" - causes concern even among moderates in the governing Panhellenic Socialist Movement.

The Gavdos incident, which caused confusion at a Nato foreign ministers' meeting this month, followed a military stand-off in January when Turkish troops removed a Greek flag from an uninhabited islet close to the Turkish coast.

Mr Arsenis said the two incidents had forced the government to abandon its policy of cutting the defence budget by postponing weapons purchases. But he stressed that cost-cutting measures in the armed forces, such as mergers of units and closures of military camps around Greece, were still on track.

Mr Arsenis conceded a sharp rise in defence outlays would make it more difficult for Greece to reach the Maastricht targets for joining the EU's planned single currency. Fresh borrowing to cover weapons purchases would push up public debt, already over 110 per cent of gross domestic product, while an increase in debt-servicing costs would add to the budget deficit.

He said new weapons were needed "to keep the relative balance of power [in the Aegean] the same as in the past few years, taking into account Turkey's armaments programme" which covers acquisitions of naval vessels, fighter aircraft and new missile systems from the US.

Bitter memories cloud vote in Volgograd

Some who should fit the Communist stereotype tell **Sander Thoenes** that they voted for Yeltsin

Mr Andrei Alexeyev, 85, should be a typical Communist voter. He helped defeat the German army at Stalingrad, now called Volgograd. His veterans' pension, $140 a month, is far from sufficient, and he is shocked by the crime and corruption accompanying market reforms in Russia.

But Mr Alexeyev was also a prisoner of war, and he saw how British soldiers were fed when they liberated his camp. "We would not have eaten like that even if real communism had ever come to Russia," he said with a bitter grin.

When he returned home he was locked up by Stalin for a year in a concentration camp, along with millions of other soldiers who were thought to have been corrupted by the capitalist allies they met. "Stalin was so incredibly cruel," Mr Alexeyev said. "I have hated the Communist party ever since."

Like many voters who should fit the communist stereotype, Mr Alexeyev voted for Mr Boris Yeltsin, the incumbent, in presidential elections yesterday. A quick survey of 50 voters in Volgograd showed Mr Yeltsin far ahead of Mr Gennady Zyuganov, his Communist rival, although polls have proven unreliable in Russia, partly because Mr Zyuganov's supporters are loath to talk to pollsters.

And this is Volgograd, part of what even Mr Zyuganov calls "the Red Belt". In 1991, when Mr Yeltsin first ran for president, Communists from Volgograd led a nationwide attempt to foil his bid. Out of 24 seats in the city council, 22 went to Communist candidates in a local vote last year. Many work at two giant factories where production has collapsed, the working week is shortened and salaries are four months overdue.

This city of 1m, the former Stalingrad, was where the Soviet army lost more than 1m men withstanding the Nazis and where virtually all the buildings were destroyed in 1942. Its reconstruction was a symbol of hope for the Soviet Union.

Many of those who said they had voted for alternative candidates said they would vote for Mr Zyuganov in the second round. But if Mr Zyuganov fails to sweep cities like Volgograd outright, his chances of beating Mr Yeltsin in the second round are slim.

Few in Volgograd hold any warm feelings for Mr Yeltsin, but his scare tactics, with predictions of civil war and Stalinist camps in the event of a Communist victory, appear to have paid off.

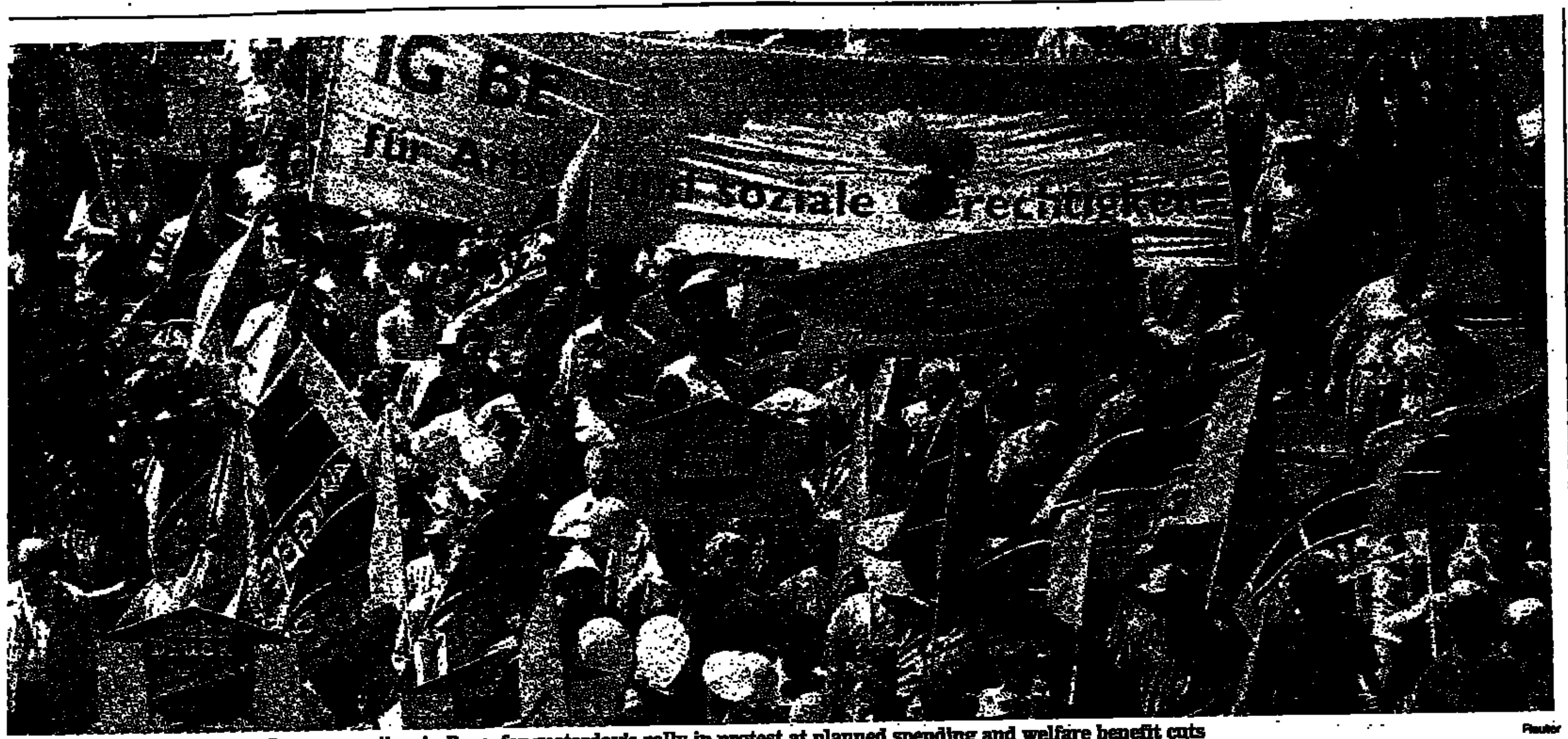
"I can't say I'm satisfied with him", said Miss Antonina Maldanova, a middle-aged physician. "When the reforms started it was awful, but now things are finally settling down, the shops are full. I don't want any more tension. Anything new frightens us."

"We are deeply unhappy," said Miss Yekaterina Saifutdinova, 49 and unemployed. "They have robbed everything in sight. But if the Communists win, they will start stealing, too. We are all afraid that civil war might break out, and that's why we will vote for Yeltsin."

Another explanation for Mr Yeltsin's apparent success in cities such as Volgograd is the low turnout in previous votes; the Communist electorate is the most disciplined. Only a presidential vote is likely to get the more apathetic voters to the polling booths. "I never voted in my life, but this time I will," a taxi driver said. "I will vote for Yeltsin."

Still, widespread dissatisfaction with crime, poverty and the war in Chechnya have been considered likely to force Mr Yeltsin into a widely predicted run-off in the second round against Mr Zyuganov, tentatively scheduled for July.

"Yes, we stood in line," said Miss Yekaghrina Tokareva, an elderly devout Commmunist. "But at least we ate sausages. Now we just stand there and look at them."



Demonstrators from across Germany gather in Bonn for yesterday's rally in protest at planned spending and welfare benefit cuts Reuter

Bosnian Croats stay with own state

By Laura Silber in Belgrade and Harriet Martin in Mostar

Bosnian Croats have ignored the Dayton peace accords, naming a new separatist government for their self-styled state in Bosnia, local radio reported yesterday.

The move comes after the international community has given the go-ahead for elections to be held by September 14 in Bosnia, in spite of the unstable political climate and numerous violations of the Dayton agreement.

In another ominous sign, Mr Haris Silajdzic, a popular former prime minister, was attacked yesterday by supporters of the ruling Moslem Party of Democratic Action (SDA) as he launched his new indep[illegible] dent Party for Bosnia.

Mr Silajdzic was reco[illegible] after being hit on the [illegible] with an iron bar by SI[illegible] porters loyal to Bosnia[illegible] dent Alija Izetbego[illegible] Cazin, northwestern B[illegible]

The Organisation f[illegible] rity and Co-operat[illegible] Europe, which is res[illegible] for organising the e[illegible] and is set to certify thi[illegible] that a free and fair poll [illegible] held in Bosnia, blamed local Moslem authorities for the attack. A statement called the attack a "blatant failure" to guarantee "the most elementa[illegible] rights of citizens and the basi[illegible] principles of the democrati[illegible] process".

In another setback for th[illegible] Dayton pact, Mr Pero Mark[illegible] ovic on Saturday was named prime minister of Herceg Bosna, the ethnic state th[illegible] Croats agreed to disband la[illegible] November. This could unde[illegible] mine local elections which a[illegible] due to take place on June 30 i[illegible] Mostar, southwestern Bosnia and are seen as a crucial test for the prospects of the Moslem-Croat federation.

The divided town remains a painful symbol of the year-long war between the Croats and the Moslems, which ended in February 1994 when Washington brokered the deal setting up the federation.

Separatist Croats still claim Mostar as the capital of "Herceg-Bosna". The elections at the end of the month are seen as an indicator of the political commitment to the federation. But most observers expect the poll to highlight the weakness of the alliance, with the results confirming the wartime division of the city into Croat and Moslem halves.

Mr Ricardo Casado, the EU administrator of Mostar, yesterday played down the significance of the "government" reshuffle. Mr Hasan Muratovic, the Bosnian prime minister, yesterday condemned the Croat move as "illegal", adding that it exposed the lack of Croat commitment to the newly created federal government in Bosnia.

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Sun, sausage and music as unions protest in Bonn

By Peter Norman in Bonn

"These nit-wits in pin-striped suits do more damage to the economy in one day than all the malingerers in the past 10 years," Mr Dieter Schulte, head of the German trade union federation (DGB), declared to the 350,000 trade unionists crowded in front of Bonn university and in nearby squares of the old city centre.

His audience on Saturday had come from all over Germany to protest: the elite of the German working class anxious to defend their middle class lifestyles by protesting against government plans to cut public spending and trim Germany's generous welfare benefits.

They were men and women who had worked hard to obtain their vocational qualifications and who had got used to rising incomes, a shrinking working week and six weeks' paid holiday a year during the prosperous 1980s.

They now saw these gains threatened by government plans to cut welfare entitlements, such as sick pay rules that result in people being paid more for not working than for doing their job, or by bosses who have begun to talk of "shareholder value" instead of consensus.

Mr Schulte was given his first genuinely enthusiastic round of applause as he condemned the "nit-wit" managers behind recent corporate losses and scandals.

But when Mr Schulte promised more protests in future, there was no sign of an upsurge of militancy. Perhaps that was because the speeches gave way to an interlude of socially aware pop music. Maybe it was because everybody knew Chancellor Helmut Kohl had declared he would not be influenced by the demonstration.

Although they outnumbered the city's inhabitants - in one of the largest demonstrations of Germany's postwar history - the crowds that gathered were notably devoid of passion. Mainly male and middle-aged, some with wives and children in tow, they displayed the same quiet discipline as during the week when tending machines in their factories or shuffling papers from in-tray to filing cabinet.

They queued patiently at the sausage stalls. The applause for Mr Schulte, and for Mr Roland Issen, leader of the German office workers' union (DAG), lasted seconds rather than minutes.

The demonstration was an impressive display of logistical skills. "The DGB organised it all in a Prussian way," said an admiring Bonn police spokesman afterwards.

But many who had travelled to Bonn at union expense on 74 special trains, 5,400 buses and two Rhine steamers seemed content just to enjoy a day out in the summer sun. The only disturbance came on the fringes when 400 to 500 self-styled anarchists lobbed stones at the police, injuring four.

The demonstrators' bright new baseball caps told of distant loyalties. IG Metall, the metal workers union, had provided bright red hats for its members from Ingolstadt in Bavaria, where Audi cars are made; and red again for members of IG Chemie, the chemical workers union, who set out at 5.30am from Augsburg in the south.

By the time Mr Issen came to the microphone to call the government's "so-called programme for more growth and jobs a rape of the German language" and a "huge swindle", the troops had started melting away to rejoin the buses and trains that had brought them to Bonn.

Would it have been different if a gifted orator, such as Mr Oskar Lafontaine, the leader of the Social Democratic party, had addressed the crowd?

Mr Lafontaine and a handful of SPD politicians were there but the trade union organisers had decided that no politicians should speak. Mr Lafontaine contented himself with signing autographs as Mr Issen droned on.

Business official named as Austrian minister

By Eric Frey in Vienna

Mr Johann Farnleitner, a deputy secretary general at the Austrian Federal Economic Chamber, was named Austrian economics minister yesterday. He succeeds Mr Johannes Ditz, who stepped down last week amid frustration about the slow pace of liberalisation.

Mr Farnleitner is a member of the conservative People's party, which is entitled to the economics post under a coalition agreement. Mr Farnleitner is not widely known and has little political experience.

But several more prominent political and business leaders took themselves out of the running in recent days.

The Federal Economic Chamber, the country's biggest business association, openly insisted on a big say in the cabinet appointment.

Traders ponder Sumitomo's claimed loss

By Kenneth Gooding, Mining Correspondent

Experienced metals traders yesterday were still scratching their heads, wondering just how it was possible for Mr Yasuo Hamanaka to have concealed losses totalling $1.8bn over 10 years as Sumitomo Corporation claims.

Many traders have concluded that it was near to impossible to hide such big losses for so long. They expect further explanation to come from Sumitomo on the precise nature of the trades and on whether other staff at the company were aware of the deception.

The traders suggested there would have had to be continuing silence from the counterparties, or those who were on the opposite ends of Mr Hamanaka's trades and, presumably, making profits.

Also, "someone at Sumitomo presumably was signing all the cheques that had to be sent off to cover the losses and, if that someone was Hamanaka, someone else surely would have noticed sums of that size," one London trader said yesterday.

"It is simply not possible to lose all that money undetected," the trader added. Perhaps, however, the figure was based on Sumitomo's view of potential losses if the group simply wound up its copper positions and did not attempt to limit its losses by carrying on trading.

At the weekend, Sumitomo rejected Japanese press criticism that it should have acted earlier. The company said: "We have disclosed all the information that we possibly can at this time."

One way that copper market losses can be hidden, at least for a while, was ably demonstrated by Mr Juan Pablo Davila, who was trading for Codelco, the state-owned Chilean group.

> Many traders have concluded that it was near to impossible to hide such big losses for so long

He lost about $175m when the market went through a volatile patch in 1993.

He employed to his advantage an esoteric London Metal Exchange trading practice known in the jargon as "carries at historical prices".

In practice this means that, instead of paying up at the end of a contract, it is rolled forward again, but at the original price rather than the price prevailing in the market.

There are genuine reasons why some customers want to make use of this system, but traders suggest it can also be used to disguise, temporarily, loss-making positions.

LME brokers prefer not to give these "carries" because they tie up credit lines and take some financing. So the service is provided only to substantial customers with deep pockets.

Both Codelco and Sumitomo fit that description.

Mr Juan Villarzu, who took over as Codelco's chief executive in the management shake-up that followed the revelation of the losses, said: "Had you had the opportunity to examine the trading contracts which Codelco entered into during 1993, you would have been amazed at the number of transactions whose prices had no direct relationship with the market prices ruling at the date and time of the transaction."

In view of Mr Davila's efforts, and because of the protests, the LME tightened up the rules governing "carries at historical prices".

Since the rule change, historic price carries have to be approved at the highest possible level at the organisation wanting to use the system and cannot be employed by a trader on his own.

Mr Raj Bagri, chairman of the exchange, said that the LME would look again at its procedures in the light of Sumitomo's disaster to see whether more changes were needed.

He was also concerned that the LME had jurisdiction only over its own members and not over other users of its markets.

Neither Sumitomo, nor the agents it used most heavily, Winchester Commodity Group in the UK and Global Metals of New York, are LME members.

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Jacob Frenkel: as finance minister would strengthen moves on macro-economic reform and budgetary restraint

Netanyahu move signals deeper economic reform

By Julian Ozanne in Jerusalem

Israeli prime minister-elect Mr Benjamin Netanyahu's decision yesterday to ask Mr Jacob Frenkel, central bank governor, to be the next finance minister signals his determination to deepen macro-economic reform and pursue budgetary restraint.

The announcement also reveals Mr Netanyahu's ability to resist demands by powerful members of his own rightwing Likud party, including Mr Ariel Sharon, the hawkish former general, who threatened to stay out of a government unless he received either the defence or treasury portfolio.

A central bank spokesman said Mr Frenkel was considering the offer "seriously" but was waiting to see how Mr Netanyahu resolved other complicated issues surrounding the formation of a coalition government of rightwing, religious and immigrants' parties.

Israel's stock market reacted positively to the prospect of Mr Frenkel's appointment as finance minister. The Mishtanim index of the top 100 companies fell sharply in morning trading, losing almost 2 per cent following Friday's release of a much higher than expecting increase of the consumer price index.

But after news of Mr Netanyahu's offer to Mr Frenkel became public, shares rebounded and the Mishtanim rallied to close down 0.75 per cent, or 1.51 points, at 200.30.

The market reaction reflects the widespread view among the business classes of Mr Frenkel's suitability to curb inflation, now running at an annual rate of 15 per cent against 8.1 per cent last year, and tackle an exploding current account deficit which reached $4bn last year, or 4.7 per cent of GDP.

Mr Frenkel has tried to battle high inflation with a policy of tight monetary control for the past two years, a strategy frequently attacked by exporters. But he has consistently said defeating high inflation requires a twin assault by the Central Bank and the Treasury involving an expenditure curb in this fiscal year and in 1997.

As central bank governor, Mr Frenkel has warned that without expenditure cuts of Shk5bn-6bn ($1.53bn-$1.84bn) in the next 18 months, the government will overshoot its 1996 inflation target of 8-10 per cent, miss its budget deficit target of 2.5 per cent of GDP and continue to widen the balance of payments gap.

The 53-year-old former IMF official and university of Chicago professor is a technocrat without party affiliation, who was appointed central bank governor in 1991.

Mr Frenkel's acceptance will cause a stir in Mr Netanyahu's rightwing Likud party. Two senior Likud members, Mr Sharon and Mr Dan Meridor, had staked claims to the crucial ministry. Mr Sharon was last night refusing to join the government, forcing Mr Netanyahu into early conflict with a popular and powerful member of his own party.

International effort seeks to avoid meltdown

Laurie Morse and **Kenneth Gooding** examine moves to restore stability in the world copper market

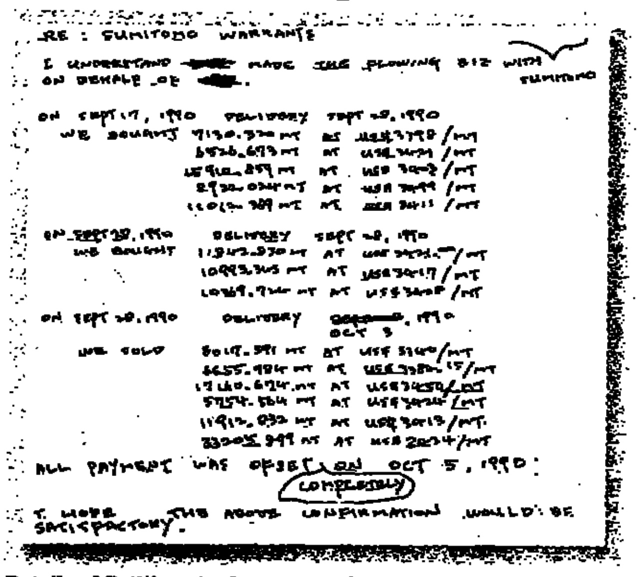
The potential for widespread financial damage if the copper price goes into free fall goes far beyond the London Metal Exchange and its members.

That is why such a co-ordinated international effort is being made to ensure that stability returns to the exchange's copper market as quickly as possible.

Trading houses, brokers, retail and investment banks and some North American copper producers, other metal producers and hedge funds all have a vested interest in avoiding a market meltdown.

The LME is a truly international market. About 90 per cent of its members are owned by organisations based outside the UK, and more than 90 per cent of its revenue comes from non-British clients.

The Bank of England is involved in the containment efforts because many of the big users of the LME and some members are owned by banks. Also, all trades on the LME are guaranteed by the London Clearing House which is owned by six banks: Barclays, Lloyds, Midland, NatWest, Royal Bank of Scotland and Standard Chartered. Together they provide financial backing of £150m for counterparty risk.



RE: SUMITOMO WARRANTS

ALL PAYMENT WAS OFFSET ON OCT 5, 1990 COMPLETELY

I HOPE THE ABOVE CONFIRMATION WOULD BE SATISFACTORY.

Details of fictitious trades requested by Mr Yasuo Hamanaka, the Sumitomo copper trader, in a handwritten note to a dealer in October 1991. The dealer was asked to issue a backdated invoice

In recent years, as the size and exposures of derivatives have grown exponentially, re-insurers protecting the banks against a clearing house default have backed away. Since then the Bank of England has quietly but firmly been pushing the London Exchanges and their members to assume the ownership, and the risks, of the London Clearing House.

Before the Sumitomo announcement last week, Mr Raj Bagri, LME chairman, said that in principle the exchange had agreed to take shares in the reconstituted Clearing House. It would contribute £2.75m towards the LCH's £50m capital.

The Bank of Japan is involved because of concerns about the exposure of Japanese banks, including Sumitomo Bank, a member of the same *keiretsu*, or corporate family, as Sumitomo Corporation.

The co-ordinated international efforts seemed to work well on Friday, the first trading day after Sumitomo's announcement of its big losses, and, after some panic selling, the copper price steadied.

At the same time, however, other LME-traded metals suffered as traders sold to meet margin calls. Even gold, and more particularly, silver prices were weakened by this type of selling.

The LME raised the initial margin on copper – or the cost of making a trade – to an unprecedented $600 a tonne and this is estimated to have drawn in another $600m to the Clearing House. When the margin was doubled from the usual $200 to $400 a tonne during turmoil on June 6, about $700m was taken in by the clearing house, showing the financial strength of the market participants.

The US futures exchanges, the LME, the UK Securities and Investment Board and the US Commodity Futures Trading Commission spent much of Friday engaged in transatlantic conference calls trying to execute an agreement that should have allowed all markets access to information on Sumitomo's LME positions and general financial exposure.

However, US futures executives said they still did not have the information they needed to discern if the crisis was behind them.

Mr Patrick Thompson, president of the New York Mercantile Exchange, said: "I feel very comfortable that we have no problems from looking at the direct exposures of our customers to our markets."

However, he added: "I feel like I'm flying on one wing in terms of what risks might be out there that I don't know about."

Today there will be a great deal more pressure on the copper price because of a technicality. Today is the key pricing date for June delivery dates on the LME.

On the third Wednesday of each month futures contracts must be closed or physical metal will be delivered.

On the LME, the last day a position can be closed is two days before this "prompt date" to allow for clerical procedures. This means that a big concentration of June business in copper is expected to be done in a few hours this morning.

Traders suggested yesterday that the "dangerous" copper price – one that could trigger another steep drop today – was $1,900 a tonne or about 85 cents a pound. The close on Friday was $1,980.

At $1,900, investment banks that have granted options to North American producers would have to start selling copper futures to keep their books in balance and to avoid having to buy large tonnages of the metal.

On June 6, when similar hedging took place, the price of copper dropped by 15 per cent in only two hours.

On that day the selling was started, traders say, by two US hedge funds, Mr George Soros's Quantum Fund, and Mr Julian Robertson's Tiger fund, and by American Iron & Metal, a Montreal based scrap business run by Mr Herbie Black.

Yesterday traders were pointing to a remarkable coincidence: Sumitomo said that Mr Hamanaka's losses were discovered on June 5. Mr Hamanaka was widely credited with propping up the copper price on the LME.

INTERNATIONAL PRESS REVIEW

Sanctions deadline prompts propaganda onslaught

CHINA

By Tony Walker

China's propaganda machine could not be accused of neglecting the vexed issue of copyright piracy, with the looming of the deadline for imposition of sanctions on $2bn worth of Chinese exports to the US market.

Viewers of Chinese television and readers of the daily press have been treated to a mixture of bluster and showmanship in presentation of the argument that China has been doing all it can to combat counterfeiting of US information and entertainment products.

Great show has been made of confiscation of thousands of compact discs, audio cassettes and computer software items. Film has been broadcast of pirate goods being burned or crushed under the wheels of a steamroller.

The message on a daily basis is that China is striving to live up to undertakings made last year to eradicate piracy and that US criticism is unreasonable. However, the question of why all this activity is happening now and not before is glossed over in Chinese reportage.

Indeed, China's foreign ministry spokesman, specifically disavowed a connection, saying: "All these measures are not done for the US side. They have been done to meet the needs of China's reform and opening."

Chinese officials also dismissed any link between the argument over copyright and the discovery of contamination in waste products such as paper and rags shipped to China from the US for recycling.

According to the Chinese press, which highlighted the "garbage" story for days, "hazardous items" such as sewage, used syringes and a rotting dog had been found in the material from the US.

The timing of these discoveries was interesting and provided more than a little fodder for China's ever-grinding propaganda mill at a moment of disagreement with the US. Thus *China Daily*, in a commentary, assailed the US, saying: "Deeds speak louder than words.

"If the US government is at all concerned about human rights, it should do something to stop the dirty business."

Policing efforts against counterfeiting have been concentrated in China's southern regions, where most pirate operations are located, notably in Guangdong province adjacent to Hong Kong.

"Guangdong has done a lot of work on many fronts to protect intellectual property rights," the *China News Service* quoted Governor Lu Ruihua as saying.

Closure of assembly lines in Guangdong represented a "major crackdown on the infringement of intellectual property rights," reported the official *Xinhua* news agency.

US officials have complained that some 34 factories, most of them in Guangdong, have been churning out millions of pirate CDs which are then exported to the rest of the world through such places as Hong Kong while Chinese customs officials turn a blind eye.

Chinese officials, however, insist customs has been doing its job.

A spokeswoman for the General Administration of Customs was quoted by China Daily as saying that in the first five months of this year customs officers had prevented export of more than 80,000 pirated discs.

"The criticisms do not hold water," she said.

But the US entertainment industry estimates losses from pirating of audio-visual material, books and computer software reached $2.3bn last year.

Chinese reporting of the negotiations with the US have given little quarter, in line with a defiant posture.

Thus China's chief negotiator was quoted as saying last week US sanctions would be met with an instant riposte. "Just like the Chinese proverb goes: 'Let him who tied the bell on the tiger take if off'," the spokeswoman said.

"Whoever started the trouble should end it."

Investment outflows rise sharply

By Guy de Jonquières

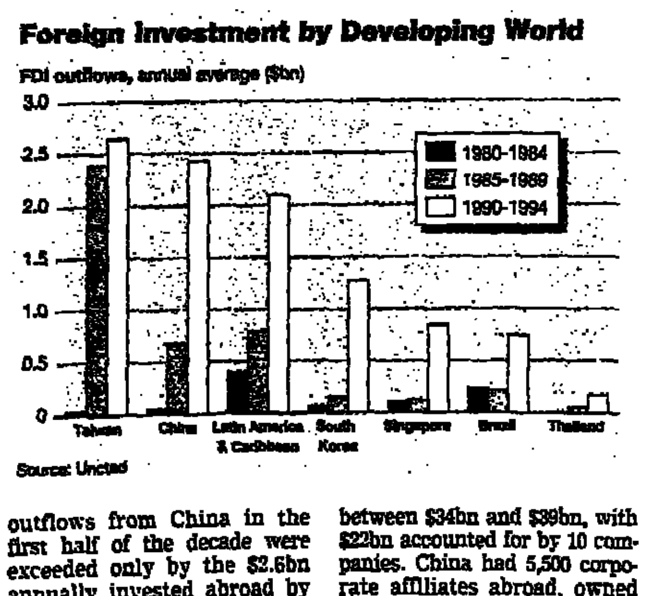
China, one of the most popular targets for inward foreign direct investment, has also become one of the biggest sources of FDI outflows in the developing world, according to a study* by the United Nations Conference on Trade and Development. It says FDI outflows from China averaged $2.4bn yearly between 1990 and 1994.

That was almost four times the level in the previous five years and exceeded the combined outflows from Latin America, the Caribbean and Singapore.

Unctad's estimates are far higher than figures published by Beijing and by the International Monetary Fund, the main sources of data until now. Unctad said the official figures captured only part of the investment flows.

Among developing countries, outflows from China in the first half of the decade were exceeded only by the $2.6bn annually invested abroad by Taiwan, much of it in mainland China. Unctad values foreign assets owned by Chinese groups at the end of 1994 at between $34bn and $39bn, with $22bn accounted for by 10 companies. China had 5,500 corporate affiliates abroad, owned by 900 companies.

Foreign Investment by Developing World



Source: Unctad

Though China's outward FDI stock was scattered across about 130 countries, 61 per cent was in Hong Kong and Macao. North America was the next most important region, with 15 per cent of the total, followed by Oceania with 8 per cent.

Almost two thirds of China's FDI stock was invested in service businesses, many intended to support exports. Unctad says Chinese insurance companies earned more than $300m in profits from about 60 foreign affiliates in 1994.

Outflows from China are still dwarfed by the value of inflows, estimated at almost $34bn in 1994. However, Unctad forecasts that the former will continue to grow and urges Beijing to liberalise further by creating a clearer regulatory framework for outward FDI.

* *Transnationalisation and outward investment: the case of Chinese firms. Transnational Corporations, Volume 4, No. 3. Unctad, Palais des Nations, 1211 Geneva 10. Tel: 4122 917 2613. Fax: 917 0027.*

Companies dealing with Iran and Libya face curbs under controversial legislation

Retaliation fears over US sanctions bill

By Nancy Dunne in Washington

The US House of Representatives is tomorrow expected to pass a weakened version of controversial legislation imposing US sanctions on foreign companies dealing with Iran and Libya.

The bill, similar to one which has already passed the Senate, has infuriated Washington's trading partners, whose companies have been helping to develop Libyan and Iran petroleum industries.

The sanctions would only apply to new investments.

A challenge to the bill can be expected in the World Trade Organisation, as happened with legislation passed earlier this year allowing retaliation against some companies trading with Cuba.

Congressman Bill Archer, whose ways and means committee demanded a less onerous bill, expressed deep reservations about unilateral secondary boycotts and other extra-territorial approaches.

US companies could be exposed to retaliatory sanctions, Mr Archer warned. "However, if our allies are going to be complacent in the face of such blatant criminality on the part of Iran and Libya, the US is all but forced to exercise its leadership unilaterally."

Under a compromise worked out between Mr Archer, chairman of the international relations and banking committees, and the administration, US President Bill Clinton would be required to seek a multilateral agreement for a sanctions regime against Iran. If countries signed up to it, their companies could make larger investments in Iran before being subject to retaliation.

The bill contains different provisions for Iran and Libya, but the principal objective is to discourage investment in the two countries' petroleum industries.

The aim is to punish the two so-called "outlaw" regimes for alleged support of terrorism.

With respect to Iran, the president must impose sanctions if companies make new investments of more than $20m in Iran's oil fields. However, the sanction's "trigger" rises to $40m if that company's government has signed on to a multilateral deal.

For Libya, the president is required to impose sanctions against companies which trade in products covered by a United Nations sanctions list. If retaliation were imposed, sanctions must remain in effect for at least one year.

The bill's provisions expire in five years.

The compromise bill weakens language directing sanctions against companies' subsidiaries. The measures would apply only to those subsidiaries which are found to have "actual knowledge" of prohibited trade and investment.

When imposing sanctions on companies and their subsidiaries, the president has been given a list of options from which he must select two. These include export and import bans; denial of loans of more than $10m from US banks, Export-Import Bank credits, and participation in US government procurement; and prohibitions on designating financial institutions as primary dealers in US debt instruments and serving as a repository of US government funds.

The original House bill which emerged from the international relations committee would have made foreign banks a sanctions target for financing prohibited investments in Iran or Libya. That provision has been removed, although banks which make equity investments in Iran and Libya could still be subject to retaliation.

INTERNATIONAL NEWS DIGEST

Sicily election tests sentiment

Voters in Sicily went to the polls yesterday to elect a new regional assembly, in the first big test of electoral sentiment in Italy since the centre-left coalition won the general elections two months ago. Parties of the right, headed by former premier Mr Silvio Berlusconi's Forza Italia movement, have campaigned hard to ensure a majority in the 90-seat regional parliament. Forza Italia won 32 per cent of the vote in the general elections, making them favourites, although the 4.3m Sicilian voters have a reputation for swinging behind the parties governing in Rome.

The outcome is also complicated by the outgoing assembly's inability to introduce electoral reform. As a result the proportional representation system is still being used, encouraging 146 different lists with 1,436 candidates.

The Sicilian regional government has special constitutional status with wide powers. Of the outgoing deputies, 52 were investigated on charges ranging from corruption to links with the Mafia. *Robert Graham, Rome*

Kobe Steel in Venezuela venture

Asian and Mexican investors are to construct a $360m iron smelter in a venture with Venezuela's state-owned industrial holding company Corporación de Guayana (CVG). Kobe Steel of Japan is the majority shareholder in the venture, with rights to half of the plant's output of 1m tonnes of iron briquettes.

Mr Takuya Negami, vice-president of Kobe Steel, said Venezuela had good operating conditions as well as "authorities that are adopting the right measures and policies". As a result, a second and even a third steel plant were being considered.

Among other factors that make Venezuela competitive are the low cost of electricity and gas, both used in iron ore processing.

The Mexican company Tubos de Acero de México, with 7 per cent of the joint venture, will use the steel to produce oil pipelines, some of which it will sell to the Venezuelan state oil company PDVSA.

The CVG subsidiary Ferrominera Orinoco will provide the iron ore in addition to basic infrastructure and land, in exchange for a 17.3 per cent stake in the venture. The plant is scheduled to begin production in August 1998.

Other shareholders in the smelter venture include Marubeni, Mitsui and Nisho Iwai of Japan, as well as Hanbo Steel of Korea. The International Finance Corporation is providing $160m of the funding and the US Eximbank is providing $60m. *Raymond Colitt, Caracas*

Poor turnout in Romania poll

Romania yesterday kept open many voting stations until midnight, three hours later than scheduled, after poor turnout in the second round of local elections for mayors and councillors. Bucharest, where Mr Ilie Nastase, the former tennis star, contested a two way run-off for mayor, was one of the few areas where turnout was higher than in the first round.

By early evening, 39.9 per cent of the population had voted in the city, compared with a national average of 37.6 per cent. Mr Nastase, representing the governing Party of Social Democracy (PDSR), trailed Mr Victor Ciorbea of the Democratic Convention, Romania's main opposition group, by about 10 points in the first round.

The PDSR, which includes many former senior communists, won more than any other group in the first round two weeks ago, winning 21.6 per cent of the vote. However, the party was eliminated from run-offs for mayor in virtually every large city, while the two largest opposition groups together won 29.6 per cent. If Romanians vote in the same way in general elections due in November, the opposition would, for the first time, have a chance of forming a government. The first official results are not due until this evening. *Virginia Marsh, Bucharest*

■ Albania yesterday repeated elections in 17 districts where irregularities may have helped the ruling party win last month's elections. *Reuter, Tirana*

Challenge to Paris government

France's leftwing opposition tabled a motion of censure over the weekend in the country's centre-right government, in a move designed to exploit the latter's political difficulties in reforming public finances and services.

The censure motion will trigger a National Assembly debate, but has no hope of precipitating early parliamentary elections, which need not be held until 1998. The motion's 95 Socialist and Communist signatories are too few in the right-dominated 577-seat Assembly for it to pass.

But, with their motion denouncing government policy as "essentially an increase in unemployment, taxes and debt", the opposition clearly wants to drive home the government policy dilemma in pursuing budget austerity and job creation.

The opposition motion also seeks to capitalise on a meeting on Thursday of European Union energy ministers to discuss electricity liberation.

The French government is seeking a compromise with its EU partners that maintains Electricité de France's monopoly on power distribution and lets only big industrial power-users negotiate supplies with foreign producers. But even this step "compromises the long-term industrial and social future" of EdF, the censure motion claims. *David Buchan, Paris*

WHO drafts European charter

The 50 member states of the World Health Organisation's European region are set this week to adopt a charter on health reform – calling for greater involvement of patients, stronger management of health systems and a closer focus on improving primary care.

The charter, drawn up after a two-year study of health reforms, is expected to be approved by ministerial delegates at a conference in Ljubljana, Slovenia.

The study concluded that demand-side reforms, such as giving greater consumer choice to patients or demanding co-payments for treatment, were relatively ineffective. But it found that supply-side changes, which restrict the behaviour of hospitals and physicians, generated measurable improvements.

The charter incorporates these findings in its statement of principles and also calls for closer attention to be paid to public health matters. It calls on signatories to pass legislation to protect the rights of patients and provide them with sufficient data to make informed choices about healthcare providers. *Mark Suzman, London*

UK, China in aviation accord

The UK and China have concluded a new aviation accord which will allow British airlines to fly on three routes over Chinese territory rather than one.

The agreement means UK carriers will be able to shorten flight times to Hong Kong. Hong Kong-based carriers will be able to fly more direct routes to Europe, Hanoi and North America. Hong Kong carriers will be able to increase their services to Chinese destinations. *Michael Skapinker, London*

Successful Ariane lift-off

Europe's 87th Ariane rocket placed a satellite into orbit after a launch from French Guiana at the weekend – the first launch since the failure 11 days earlier of its new Ariane-5 rocket.

The European Space Agency's mission used a flight-proven Ariane 44P rocket. It was the 17th consecutive success for an Ariane-4, which has failed only three times in 59 launches. The rocket placed a communications satellite into orbit for the Washington-based International Telecommunications Satellite Organisation (Intelsat). The more powerful Ariane-5, carrying an uninsured scientific satellite payload worth $500m, was blown up less than 40 seconds into its flight on June 4. *Reuter, Kourou, French Guiana*

Whitewater eddies bring fresh risks for Clinton's re-election

If the Whitewater affair ever does prevent President Bill Clinton's re-election, then a retrospective analysis might well find the week beginning today particularly fateful.

Today in Little Rock, Arkansas, another Whitewater trial begins, brought by Mr Kenneth Starr, the special counsel. Two local bankers, Mr Herby Branscum and Mr Robert Hill, have pleaded not guilty to misusing $13,200 in deposits by reimbursing themselves, relatives and employees for contributions made to Mr Clinton's gubernatorial campaign in 1990.

Tomorrow in Washington, the Senate Whitewater committee goes out of business, hopefully, its Republican majority thinks, with a bang in the form of its final report. As a last act, it is also seeking sworn testimony from Mrs Hillary Rodham Clinton on the question of the missing Rose Law Firm billing files – found, after a long absence, in the private quarters of the White House.

President Clinton: may be required to testify again

Committee sources also say the majority report will point a finger of responsibility at Mrs Clinton for having frustrated initial FBI investigations in the immediate wake of the suicide in 1993 of Mr Vincent Foster, deputy White House legal counsel at the time and a former law firm partner of the First Lady.

Republicans may also recommend further investigations for perjury against associates of Mrs and Mrs Clinton. They may include Mr Harold Ickes, deputy White House chief of staff, Mrs Margaret Williams, the First Lady's chief of staff, and Mrs Susan Thomases, a close friend and adviser to the First Family.

The report is expected to be some compensation for the failure last week of the Republicans on the committee, chaired by Senator Al D'Amato of New York, to hear Mr David Hale in public testimony. Democrats, who will issue their own minority report tomorrow, refused to grant him the immunity from subsequent prosecution he had sought.

Mr Hale, a former Arkansas investment banker now serving a prison term for fraud, was the key witness for the prosecution in the trial that resulted in the conviction for fraud of Mr and Mrs Jim McDougal, the Clintons' Whitewater real-estate partners. Governor Jim Guy Tucker of Arkansas was also found guilty and is resigning shortly.

As with the McDougal case, Mr Clinton may well again be required to testify, on July 7 by videotape from the White House, in the trial beginning today.

His political relationship with the two bankers is not in dispute – he appointed Mr Hill to the state banking board twice and Mr Branscum to the highway commission – but, as in the prior trial, the president insists he was unaware of any illegality.

Last week the judge in the McDougal case brought some relief to Mr Clinton and disappointment to his opponents by ruling that videotaped testimony should not be publicly released. The footage could well have been used in Republican political commercials.

Probably the most closely watched testimony will be that of Mr Bruce Lindsey, one of Mr Clinton's closest aides both as governor and president. He is one of the few remaining Arkansans brought to Washington and still serving in the federal government.

But the larger threat is still posed by Mr Starr's investigations, much revived after the McDougal/Tucker convictions. He has now turned his attention to the bizarre case of the FBI personnel files, some on prominent Republicans, requested by the White House in 1993.

The president has insisted this was a simple bureaucratic error without political or malicious intent. But on Friday Mr Louis Freeh, director of the FBI, described the White House request for more than 400 files; several dozen more than first revealed, as "egregious".

Mr Starr is authorised to be involved because one of the files bore the name of Mr Billy Dale, head of the White House travel office until fired, allegedly at Mrs Clinton's instigation, in the summer of 1993. The special counsel was already looking into the Dale case.

While allowing other Republicans to weigh in over Whitewater, Mr Bob Dole, the presumed Republican presidential candidate, has seized on the FBI files as a campaign issue and demanded another independent investigation. It is not enough, he has been saying, for Mr Clinton simply to apologise.

Mr Dole has been encouraged by three recent polls showing his deficit behind the president narrowing to 6-15 points from the 14-20 point range of two weeks ago. Whitewater may be a factor in this, but so may be Mr Dole's liberation from Congress.

Generally most polls have shown a public turned off by the very complexity of the many Whitewater angles and their often partisan presentation.

It is also usually the case that the country does not focus its mind on the race for the White House until the last two months of the campaign.

But Whitewater-related questions continue to dog the president at many public appearances and now provide a larger staple of non-rightwing media coverage than they have for months. Starting today, at least, that will reach a new peak.

Jurek Martin

States jostle in selection race for satellite TV

By Christopher Parkes, West Coast Correspondent

Three US states – Arizona, Colorado and Nebraska – are putting the finishing touches to incentive packages in a contest to provide a home for the MCI and News Corporation joint venture in US satellite television and multimedia services.

With an initial investment of at least $100m at stake, and expectations of a further $100m for complementary facilities, the Arizona legislature has been asked urgently to revise tax laws to put the state on an even fiscal footing with arch-rival Colorado. The draft revision goes to the assembly on June 24.

The states, all geographically ideal for a national satellite uplink because of their central location, which facilitates coverage of the entire country, are finalists in a site selection race which followed the formation in January of a partnership between MCI, one of the country's biggest telephone groups, and News Corp's global media business.

The competition is particularly aggressive because each state recognises that providing a base for the prestige project would enhance its reputation as a home to high-tech investment.

Colorado Springs, already home to 5,500 MCI employees, including its 4,000-strong software division, last week sent an offer which included tax rebates on the operation's planned $85m worth of equipment, enterprise zone credits and training subsidies.

"But we can do more. We try to play it the way the investor wants it played," an official said. "We have beaten out Phoenix many times on the [equipment] tax issue. We are going to work our butts off on this one."

The Nebraska economic development department refused to discuss its response to the partners' interest in the city of Omaha. The state, believed to have least chance, has a conservative incentives policy, although it last year approved a "quality jobs" law which allows qualifying companies to keep employees' state income taxes for corporate purposes.

The deep-pocketed partners last January paid $683m for the last available federal licence for nationwide satellite broadcasting and later announced plans to invest a further $1bn.

Although Colorado, home to the EchoStar satellite group and Tele-Communications Inc, which has vast cable TV holdings and interests in satellite and other media, appears to have the edge on experience and technical resources, Arizona is prepared to put up a stiff fight. Its appetite for media business has been sharpened by the recent completion of an animation studio for 20th Century Fox, part of News Corp. Plans are being drafted to build the state's first full-service film and TV sound stage complex.

The Arizona commerce department, responding to requests from the partners, has proposed extending tax rebates applied to traditional manufacturing plant to electronic media equipment.

The move, described officially as a "clarification" and classified by one of its backers as a "$5m-$6m item they don't

have to pay" in other areas, illustrates the keenness of the competition for new investment, especially in western states.

Although sweeteners are criticised by regional policy analysts as being unfair to established industries, there is no sign of any easing in a situation where, as one observer says, "the first one to blink is the first one out".

The MCI/News Corp project is expected to go live late next year with American Sky Broadcasting (AskyB), a direct-to-home satellite service delivering 300 channels. Sky/MCI, its sister operation, will be directed mainly at business customers.

Described as "a breakthrough, state-of-the-art delivery service" by the Arizona government, Sky/MCI will offer data, training, teleconferencing, tele-medicine, and virtual university education services.

The initial $100m investment will be spent on an all-digital satellite uplink facility and broadcast centre, according to Arizona's commerce department.

Non-payment in Europe increases

By Anne Counsell in London

Rates of non-payment by large companies in Europe have risen steeply this year, reversing a general improvement in 1995, according to a bulletin by Coface, one of Europe's largest export credit insurers. The problem is expected to grow due to the knock-on effects of the BSE crisis.

Coface's non-payment index illustrates the trend in companies not paying their bills, rather than bankruptcies, and is used as an indicator of economic activity – or the lack of it.

The rise in non-payment by companies across Europe in the first few months of this year was attributed to a variety of factors.

Spain's previously improving record for payments reversed sharply at the end of last year and non-payments have continued to climb relentlessly this year. The Coface bulletin cites insolvencies and late payments in the building sector as the reason for the rapid rise in the index.

In the UK, a generally stable record of payments in 1995 is expected to be tarnished by a steep rise in insolvencies and non-payments as the impact of the BSE crisis hits sectors from cattle breeders to retailers.

The report notes a steady increase in late and non-payment in Germany due to high insolvency rates. This is attributed to a reduction of government support for east German companies, high company gearing and a reliance on decisions by the banking sector.

Despite the upward trend, Germany's late payment index remains below the European average.

Belgium's record of corporate non-payment increased in all sectors due to a high number of insolvencies in the past four months. Payment recovery has been poor as a result. A fall in demand from Belgium's main export markets of France and Germany has also hit exporters.

Hope returns to war weary KwaZulu-Natal

Mark Ashurst on the good portents of fewer deaths and more political candour

"I am not just trying to whistle as I walk through the grave yard," insists Mr Frederick van Zyl Slabbert, administrator of this month's local government election in South Africa's KwaZulu-Natal province. "The prospects for peace in this province have fundamentally improved in the last six weeks."

Similar claims have disappointed in the past. But a 20 per cent fall in the monthly death toll in May lends credence to reports of a rapprochement between the African National Congress and the Inkatha Freedom party, the main protagonists in a feud which has claimed more than 10,000 lives in the last decade.

The evidence is modest: last month their rivalry claimed at least 50 lives, a fatality rate considered "average" by most analysts. But predictions of a killing spree ahead of the June 26 poll have failed to materialise and there are also signs of more candour among politicians wearied by the feuding.

In early May, the national government postponed the local elections for a third time due to increasing violence and administrative problems. Within weeks, six provincial MPs had for the first time identified themselves as "warlords" and pledged to abandon violence.

The postponement, against the wishes of election organisers and Mr Mangosuthu Buthelezi, Inkatha leader and national minister of home affairs, prompted criticism that the ANC had stalled the vote to prolong its campaign.

"I told President Mandela that if you are going to postpone the elections until you have peace in the province, you will need to cancel them," recalls Mr van Zyl Slabbert. "I was wrong". According to Mr Buthelezi: "Politicians have been talking about peace in KwaZulu-Natal for 11 years, but this is the first time members of the provincial cabinet have come together."

Their candour reflects profound changes in South Africa's political landscape, which have brought more autonomy for leaders in KwaZulu-Natal.

The adoption of a final national constitution on May 8, and subsequent withdrawal of the white-led National party from the government of national unity, have reduced the scope for ultimatum politics at national level.

Inkatha, which holds 5 per cent of seats in parliament, lacks the clout to win constitutional amendments that could bolster its power in KwaZulu-Natal.

The ANC, while keen to retain Inkatha as its partner in government until the 1999 general election, has weathered the collapse of its ruling coalition. As a result, threats by Inkatha to quit the government have lost much of their potency.

The more sober national debate has encouraged the ANC to review its strategy for KwaZulu-Natal, where Inkatha won 51 per cent of the vote in the election of April 1994.

In both parties the footsoldiers most involved in the violence are suffering from battle fatigue.

"There are some vipers in the ground, particularly the youth, who realise they have been manipulated," comments Mr Joe Mkhwanazi, the sole representative of the minority Pan Africanist Congress in the provincial parliament. "The fighting is over old scores, and has prolonged old quarrels."

More than 20 years have passed since Mr Buthelezi, a former ANC member, launched Inkatha as a Zulu-based liberation movement with the ANC's blessing. The two organisations split irrevocably in 1979 over Mr Buthelezi's opposition to the ANC's policy of "armed struggle" against apartheid.

But the close relationship between Mr Frank Mdlalose, Inkatha leader and premier of KwaZulu-Natal, and Mr Jacob Zuma, the ANC leader in the province, has inspired the lower ranks of the provincial parliament.

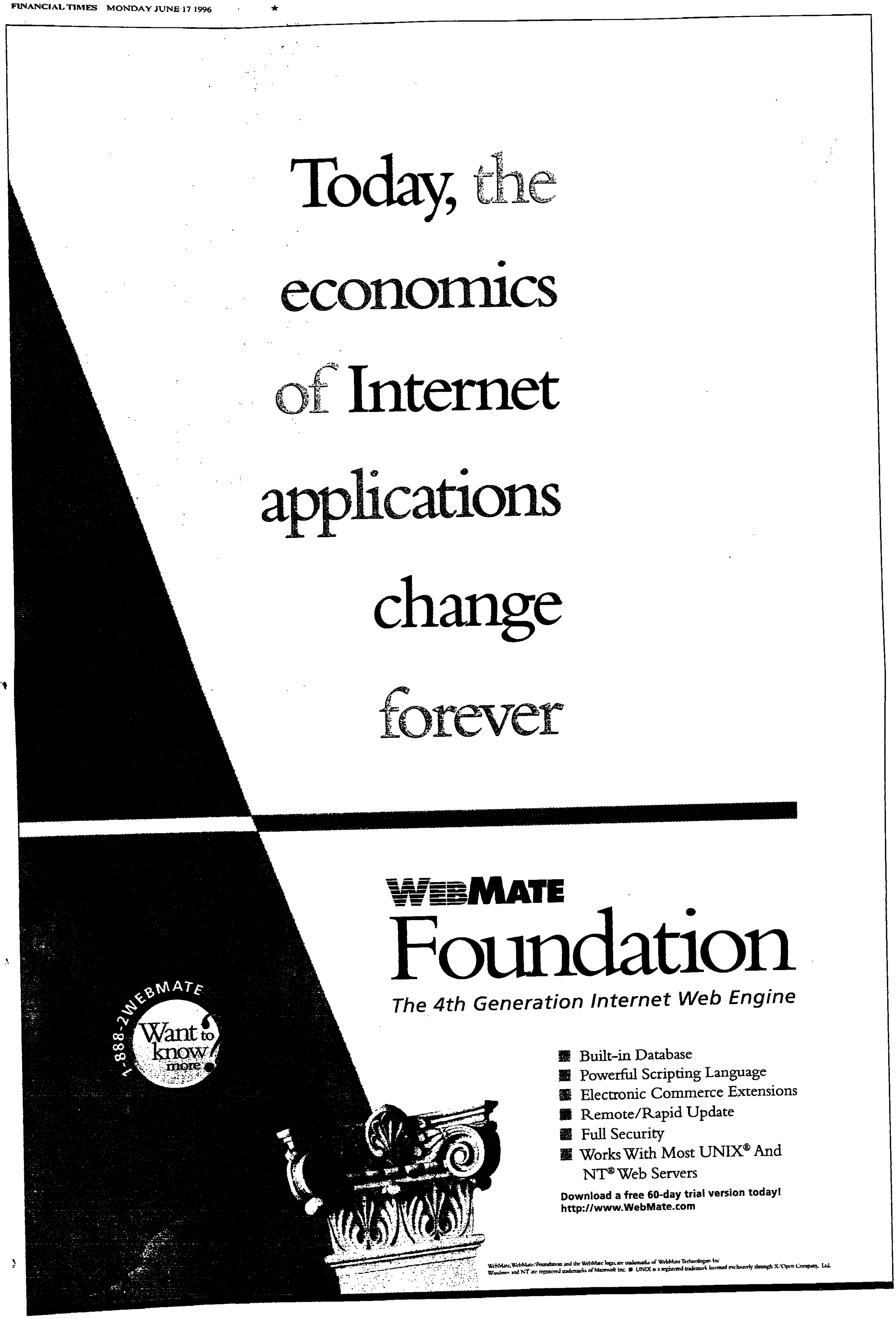
"The campaign posters stay on the trees for longer, and both sides will sit and continue a peace meeting after the leaders have left," says a local election candidate.

As younger leaders gain influence, the focus of provincial politics is shifting away from the more ideological terrain of the past. Throughout the 1980s Mr Buthelezi found favour with western leaders alarmed by the ANC's links with the Soviet bloc – prompting many in the ANC to dismiss him as a product of the cold war.

Neither this analysis, nor evidence that Inkatha loyalists received weapons and paramilitary training from the apartheid government, deterred his supporters in the province.

In recent weeks both parties have acknowledged that their opponents command loyal and probably intractable support. Ukuthula, a peace campaign launched by the same church leaders who successfully lobbied Inkatha to participate at the 11th hour in the April 1994 election, has been endorsed by both camps. Provincial MPs on both sides have also pledged to escort opposing candidates through their respective strongholds.

It remains to be seen, though, whether the deeply conservative rural communities of KwaZulu-Natal will welcome this pluralist message.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■ AFTERMATH – By Richard Wolffe

City faces paralysis as cordons seal off centre

Manchester's business and retail centres face paralysis today as police and surveyors continue to sift through the debris of the bomb attack which is estimated to have caused more than £100m of damage to the city centre.

Two tight police cordons sealed shops and offices to owners and managers yesterday – one around the immediate scene of the blast, the other around surrounding streets hit by the aftershock.

Officials estimate that it may take until tomorrow before the general public is allowed to enter the outer cordon. The inner area – currently the scene of forensic examination – may take weeks to open fully.

Safety concerns frustrated most businessmen trying to visit their property yesterday. Many were concerned to secure their possessions from looters. Others simply wanted to assess the damage in order to put contingency plans into action.

Structural experts suggested that Marks and Spencer, the store closest to the detonation, would have to be demolished. It was unclear yesterday whether the Arndale Centre nearby was structurally safe. The explosion destroyed one side of the office and shopping complex.

Victoria railway station remained closed to the public after its roof was damaged by the explosion.

In the central area, offices belonging to companies such as Royal Insurance and ICL are understood to be severely damaged.

The outer cordon includes Manchester's main banking and financial centres around King Street, where there is substantial damage to windows. Police said that the broken glass posed a continued threat to anyone entering the area.

Mr Pat Karney, the chairman of Manchester Council's city centre committee, said: "The bomb hit the hub of Manchester's economy.

"In the short term there will be major damage done to the confidence of people who work, trade, visit and shop in the city centre. But we are working to get Manchester back to business as soon as possible.

"Everyone is so shocked that these cowardly barbarians chose Manchester to come and maim and wound people on one of the busiest shopping days of the year. It looks like a war zone in there."

Bigger businesses such as Sun Alliance launched well-planned emergency procedures yesterday. But several hundred small businesses – mainly retailers – were facing ruinous delays to their trading. Many feared that consumers would be too scared to visit the city and that trading would be depressed for some time.

One city centre retail jeweller, who declined to be named, said: "Everyone is just stunned because it is going to take a very, very long time for the city to get right again.

"You can see it from their faces. Businesses are having a hard time anyway, particularly in the retail sector, and this is just the last nail in the coffin. A lot of people will not come back to Manchester for ages."

Among the service sector the bomb has led to similar fears over Manchester's ability to recover quickly from the damage. Several of the city's insurance offices were most affected by the blast – and it is vital that they resume operations as soon as possible.

Mr Alan Stanbridge, a director of Cunningham Hart, a loss adjuster, was unable to start work on insurance claims as his office was behind the security cordon.

Mr Stanbridge said he was considering transferring his staff to offices in Stockport and Oldham.

Several public sector buildings were also hit by the explosion. Industrial tribunals have been cancelled today because the Department of Trade and Industry building in Parsonage Street was damaged by the blast.

Mr Christopher Brittell, a computer systems supervisor, said: "We heard the helicopter announcing the evacuation but they didn't talk about clearing our area.

"We took precautions to move away from the windows but we just saw the blast coming towards us, the air moving with the shock waves, and we got out of the area.

"No one was hurt but we are all very upset and the first three floors of the building had their windows blown out."

■ INSURANCE – By Simon London

£100m claims possible but some policies may not give cover

Insurance claims arising from the Manchester bomb could reach £100m but some policies may not cover businesses for acts of terrorism.

The area around the explosion remained sealed off yesterday, preventing loss adjusters and structural engineers from examining the buildings that took the full force of the blast.

P&O, the shipping-to-property group that owns the £200m Arndale Centre, the biggest building damaged by the explosion, said that it was too early to estimate the total damage.

The centre includes 1.25m sq ft of shops let to retailers, including Littlewoods, WH Smith and Boots, and a 19-storey office tower mainly occupied by ICL, the computer company.

While P&O expects to be fully covered by its insurance policies, many smaller businesses may be unable to claim for either structural damage or loss of trade.

Mr Justin Balcombe, head of the catastrophe claims unit at Balcombe Group, the loss assessment company, said 400 policyholders had contacted the company since Saturday morning. About one quarter of those did not have terrorism cover.

The Manchester bomb is likely to bring many more individual claims than February's IRA bomb in London Docklands because the damage extends to small shops, businesses, offices and even residential areas.

"Between £50m and £75m is a conservative figure for total claims, but it could be more," Mr Balcombe said.

The larger claims will fall on Pool Re, the government-backed reinsurance company that supports terrorism policies and was set up after the 1992 bomb attack in the City of London.

Insurance companies sell terrorism insurance on terms and conditions set down by Pool Re, which in return carries most of the burden of large claims.

The London Docklands bomb has already led to a sharp increase in the cost of terrorism cover for businesses.

At the start of the year Pool Re collected only 60 per cent of the insurance premiums due from its customers and said that the balance would fall due if claims during the whole of the year amounted to more than £75m.

Last week the company said that claims from the Docklands incident had reached £100m, even though two of the big commercial buildings damaged by the blast were not insured against terrorism.

As a result Pool Re policyholders will be asked to pay the remaining 40 per cent of their annual premiums.

A 20 per cent discount on premium rates introduced after the IRA ceasefire is also being dropped for new policies.

Mr Lesley Lucas, Pool Re chief executive, said that the final level of claims had been higher than expected in the immediate aftermath of the blast because some structural damage had come to light only after detailed engineering tests.

He added that Pool Re would take into account the total level of terrorism claims for this year when setting its premium rates for next year.

"At this stage it is unlikely that premium rates will increase but we will have to see what happens later in the year," he said.

Paul Barker

Latest outrage: wrecked buildings in Manchester city centre yesterday after Saturday's bombing

Governments struggle for way forward

The latest attack has made the search for a political solution seem even more difficult

Throughout the years, the search for a settlement for Northern Ireland has alternated between periods of optimism and gloom. Yesterday, in the aftermath of the Manchester bombing, the mood was infused with overwhelming despair.

The politicians searching for a way out of the problem have all been there before. This time, however, there appears something different.

The attack in London's Docklands on February 9, in which two people were killed, was the more dramatic, because it signalled an end to the fragile ceasefire. Yet for all the surprise, disappointment and fury, a political goal still beckoned – all-party talks.

This, optimists believed, might concentrate the minds of the political leadership in the Sinn Féin/IRA axis which British ministers are convinced is inextricably linked.

The hope then was that the bombing might be a one-off warning. Even though five subsequent incidents took place, such as the accidental detonation of a bomb on a bus, and an attempt to blow up Hammersmith Bridge in the west of the capital, a lull ensued.

This was interpreted by some in Dublin and London as signalling that Sinn Féin might yet accede to the demands of the British and Irish governments and restore its ceasefire.

As the days ticked by before June 10 – the start of the negotiations in Belfast – the prospects became increasingly dim.

Sinn Féin's striking success in the May 30 elections to a new Northern Ireland forum, which in turn would delegate teams to the talks, was double-edged.

Some nationalists saw it as a personal endorsement for Mr Gerry Adams, the Sinn Féin president, who they believed was arguing the case for political engagement to the IRA army's council. Others feared that it would be seen by the IRA as vindication of its use of violence to achieve its ends.

A seminal moment for the Irish government came on June 7, with the murder of a police officer in Adare, county Limerick. The IRA said the shooting of Mr Gerry McCabe was "not authorised", raising the prospect of a split between individual active service units and the leadership.

Ministers and officials in London with access to intelligence reports scoffed at such suggestions. "If anything good comes of this, it might nail once and for all the propaganda that somehow Adams is not involved with the gunmen," said a senior UK minister.

For Mr John Bruton, the Irish prime minister, Mr McCabe's killing was a devastating blow. Mr Bruton joined tens of thousands of mourners in an outpouring of national shame at the funeral – held on the morning of the first day of the talks, which had been devised as heralding the start of a new era for the Irish republic and its ties with the north.

Mr Bruton all but admitted that Manchester had shattered what remains of Dublin's – and in part London's – strategy.

Both had been predicated on an attempt to draw moderate republicans into the political fold. Mr Dick Spring, the Irish foreign minister, who has in the past been seen by the UK government as too willing to accommodate republican demands, spoke of a "sense of betrayal". The Irish government, Mr Spring said, would meet tomorrow to review its relationship with Sinn Féin. "The talks have started and what do we get in return? We get an outrageous act by people who ... are not acting on behalf of the Irish people," Mr Spring said.

He was acknowledging that, in short, the governments have nothing more to offer.

Yet, once the brow-beating has finished, both governments will again have to take a cold hard look at the way ahead.

Mr Michael Howard, the UK home secretary, who is seen as having consistently taken the most uncompromising line against Sinn Féin in cabinet, said yesterday that the peace process was not over. He called on the nine parties taking part in the negotiations to work constructively for a constitutional solution for Northern Ireland. This, he said, would "isolate the few extremists".

Yet, irrespective of the latest terrorist acts, the talks had got off to a dreadful start. For two days Mr Spring and Sir Patrick Mayhew, Northern Ireland secretary, tried to convince unionist parties to accept Mr George Mitchell, an aide to President Bill Clinton and former US senator, as chairman. The Ulster Unionists eventually yielded, but the second week's proceedings are unlikely to be any more constructive than the first.

Such was the bad blood last week neither government would, for the foreseeable future, dare to try to bring Sinn Féin to the table – even if a ceasefire was declared. Yet, as senior unionists privately admit, without Sinn Féin all the parties are merely going through the motions.

Security officials suggested that the republicans' most likely strategy might be to hold off a while before another attack. The past months have shown that the British and Irish governments have been at their closest immediately after setbacks. Once the situation has calmed, the joint approach has tended to suffer strains.

However, the security services acknowledge that – with each bombing most probably planned weeks in advance – they have no idea when the next attack will come.

Manchester was probably targetted because security may have been less tight than London – the only previous target in the four months since the resumption of IRA terrorism – and because of its high profile as one of the main venues for the Euro 96 soccer tournament. This raises the prospect of a bomb in another of the host cities before the event is over.

"The best we can do is painstakingly improve our intelligence gathering and go for these people as hard as we can," said a UK minister. "I don't think anyone would now doubt that we're in for the long haul."

John Kampfner

■ TOURISM

Concern about the effect on visitors

The British Tourist Board yesterday expressed concern that a renewal of terrorist attacks after the Manchester bombing could deter foreigners from visiting the UK in what was expected to be a record year for tourism.

So far there is no sign of panic among foreign visitors already in the UK, including the tens of thousands of football supporters attending the Euro 96 tournament, according to the BTB and other tourism bodies. Similarly they have detected no evidence of large-scale cancellations of trips later this summer.

The BTB said it would be "watching the situation closely" in the next few weeks. "Obviously we're concerned," said a spokeswoman. "But there were only a few immediate cancellations after the London bombings in February, and overall figures continued to increase. We hope that situation will continue."

The last significant decline in foreign visits to the UK was during the Gulf War in late in 1990 and early in 1991, when international air travel ground to a halt and the number of North American tourists fell sharply.

Since then visitor levels have risen steadily, helped by sterling's weakness, the opening of the Channel Tunnel and the general improvement in the global economy.

According to the BTB the number of foreign visitors to the UK increased by 12 per cent to 24m last year, with the number of North Americans returning to pre-Gulf War levels. The increase continued in the first quarter of this year in spite of the February bombings, with numbers rising by 8 per cent to 4.6m.

Healthy bookings suggest that the UK is on course for another increase this year. The Euro 96 tournament alone is expected to bring 250,000 foreigners into the country, although many will fly in and out on "day-trip" charters.

The UK's share of international tourist revenue is still well below its 1980 level of 6.7 per cent, however, in spite of the growth in visitor levels. Last year it reached 5 per cent, after falling to 4.4 per cent in 1994.

Hopes of continued recovery in market share this year could be scuppered if foreign visitors are deterred by the threat of terrorist attacks.

Travel organisations said that there had been no cause for concern this weekend. British Airways said that the number of people buying new tickets, or bringing forward their return flights, was "absolutely normal".

Similarly Manchester International Airport, 10 miles outside the city centre where Saturday's bombing took place, said the situation was stable. An additional 3,000 people had been using the airport each day during the Euro 96 tournament to travel to stadiums throughout the north-west.

A spokeswoman said that most travellers had stuck to their pre-arranged schedules including football supporters, many of whom had flown in on day charter flights. Manchester International handled 40 Euro 96 charters this weekend.

Alice Rawsthorn

■ BALTIC EXCHANGE BLAST – By John Authers

Planning prevented a disaster becoming a crisis

The Manchester bomb awoke some painful memories at Commercial Union, the composite insurer, yesterday.

In 1992 it was forced to leave its London headquarters for more than two years after what was then the biggest bomb unleashed by the IRA on the British mainland.

The bomb threw CU into turmoil. But thanks to the company's successful handling of the emergency, it also turned CU into a reluctant expert on disaster planning.

With further IRA attacks on office property in the UK, and the bombs in Oklahoma City and New York's World Trade Centre in the US, it has even started providing seminars for international companies on the subject.

The Baltic Exchange bomb is planted firmly in the memory of Mr Ray Morley, CU's communications officer. "It went off on a Friday evening, April 10 1992, the day after the election, at 15 minutes past nine," he recalled immediately.

The group had a disaster plan for the building, drawn up mostly with the dangers of flood and fire in mind, and this proved critical. By midnight on the Friday executives realised that they needed to put the plan into action.

"We saw the news on television, and by midnight we'd decided we weren't going to be back in the building on Monday morning, which sounds a little naive now," Mr Morley said.

A group of 20 "key" people, including the systems engineers covering telephones and computers, and property managers met at 7.30 the next morning. The company's Croydon office had been earmarked for the task in the event of an emergency at the headquarters.

Their first objective was to identify how much spare office space the company had in the rest of London, and then to decide how many members of staff were essential for running the business on the Monday morning. By mid-morning on the Saturday all staff had been reallocated.

The Croydon office's phone system, linked to the computer system at the headquarters, was down. But the central disaster team had the telephone numbers for three or four people in each department. All of these were required to have their own disaster plan, and to "cascade" the news to their colleagues over the weekend.

The telephone system, kept in the fourth basement of headquarters, was found not to be seriously damaged and was reactivated.

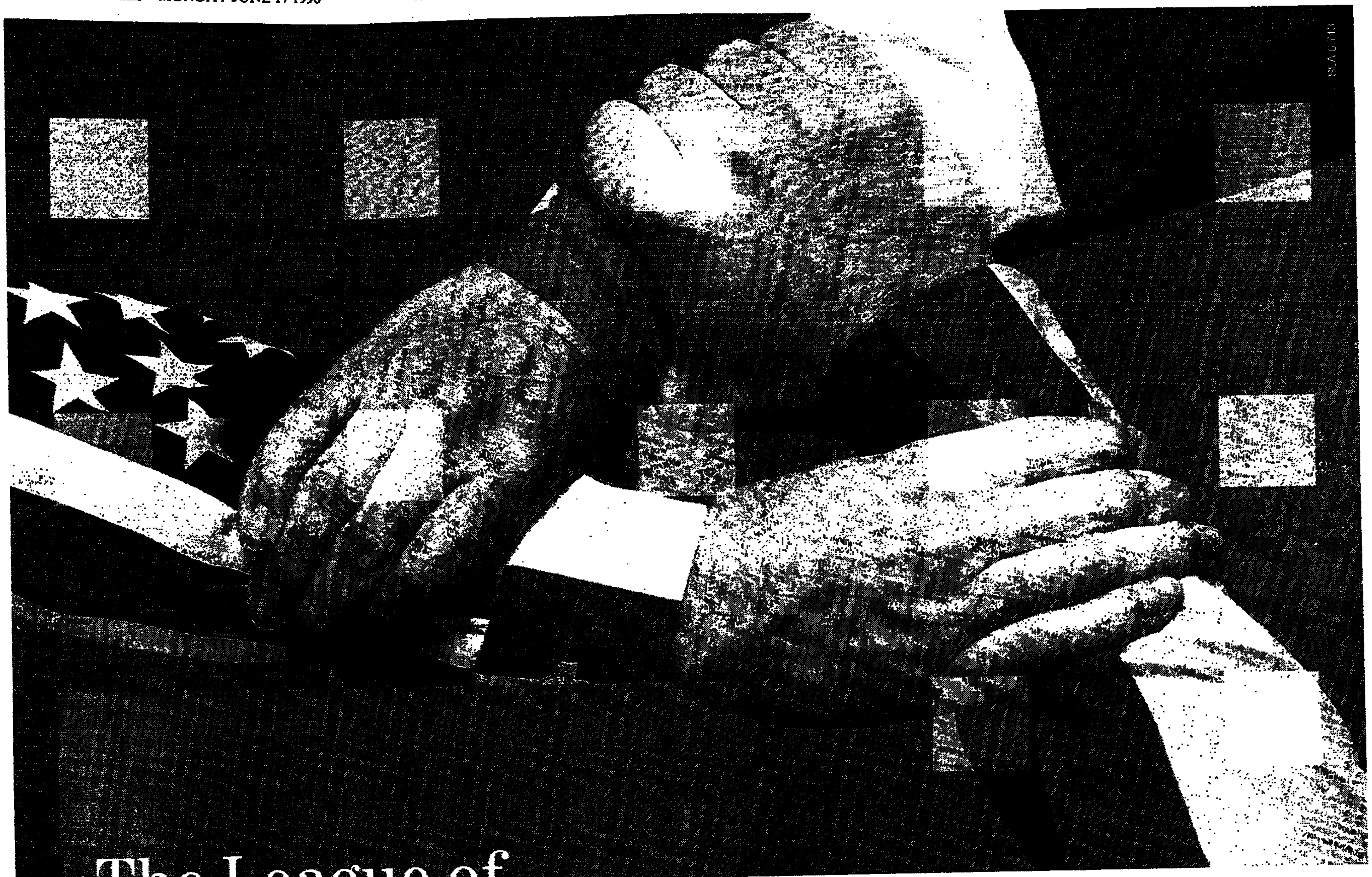
By Saturday evening, the team was "moderately confident" that the company could return to work on Monday, and space was booked in national newspapers. "Otherwise people think you've gone out of business," Mr Morley said.

On Sunday CU knew it had enough people in place to say it was "business as usual", and placed advertisements saying so.

By Tuesday 631 of the 650 affected staff were back at work.

Colin Beere

Devastation: St Mary Axe and the Commercial Union building after an IRA bomb attack which shattered the City in April 1992



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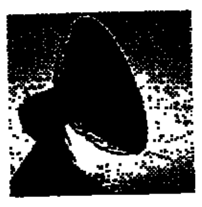

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* The Global One venture is subject to regulatory approval.

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In the words of the U.S.A.'s Forrester Research Institute: "Together, Deutsche Telekom, France Telecom and Sprint form what is probably the strongest alliance in the world." It goes on to highlight our common vision, compatible products, virtually complete international coverage and vast combined experience in network technology. In short, this alliance promises unrivalled professionalism and integrated expertise. Indeed, from the start, some 2,500 specialists at 1,200 locations in more than 50 countries will be putting their global network-building skills at the disposal of customers who need to be able to communicate right round the world.

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With Global One, we have set our sights on transforming the quality of international communications. As an independent company with its own worldwide network, Global One can offer customers comprehensive, customised communications packages from a single source, using the skills and expertise of all three partners in the alliance. France Telecom is the world's fourth largest telecommunications company and boasts outstanding performance and many years' experience in the field of global data services. As a serious performer in all the major international markets, Deutsche Telekom has the densest fibre optics network in the world and offers satellite capacity from all the leading operators, not to mention top quality connections, particularly to Eastern Europe. Sprint is one of the biggest names in American telecommunications. It has a unique, fully digitised fibre optics network throughout the U.S. and excellent connections in the Pacific Rim. Put all that together and it's not hard to see why we called the new alliance Global One.

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Labour to affirm EU support in Bonn

By John Kampfner, Chief Political Correspondent

The UK's leader of the opposition parliamentary party, Mr Tony Blair, flies to Bonn today to proclaim Labour's pro-European credentials and warn of a growing section of the governing Conservative party contemplating full withdrawal from the European Union.

In his latest visit to international capitals ahead of the general election, the Labour leader will seek to exploit Tory disarray over Europe while demonstrating his "patriotic credentials" by urging a lifting of the ban on British beef.

With Mr John Major, the UK prime minister, still smarting over the defiant funding of an ardent Eurosceptic group by Baroness Thatcher, the former prime minister, Mr Michael Heseltine, deputy prime minister, yesterday warned Tories "nibbling at the fringes" that they could deliver a Labour election victory.

Labour strategists said Mr Blair would use his talks with Chancellor Helmut Kohl and Mr Oskar Lafontaine, leader of the opposition SPD, and in a speech to the BDI, Germany's national business organisation – to demonstrate a growing divergence between the main parties to Europe.

Mr Blair will attack what he believes is xenophobia in parts of government and the press, in particular anti-German remarks, while suggesting that British public opinion is not as anti-European as portrayed.

He will affirm to his hosts that Labour will fight the election as "the main pro-European party in UK politics", while making clear his cautious position on a single currency and demands for reform of the Common Agricultural Policy.

The trip comes three days before the Florence summit of EU heads of government which is expected to be dominated by the beef crisis and the UK's policy of non-cooperation.

Mr Malcolm Rifkind, foreign secretary, said the government would continue with its campaign of blocking EU business if its demand for a framework leading to the lifting of the ban on British beef is not met at the summit.

Mr Rifkind warned allies of Mr Bill Cash, whose motion last week calling for a referendum on European federalism was supported by a third of Tory backbenchers, that he was playing into the hands of Mr Blair.

"If Europe is the single greatest issue that they are concerned about, then it's a pretty rum policy to take action which appears to weaken a Conservative government and bring about an alternative government which would be much more harmful to their objectives," Mr Rifkind said.

He added: "There is no significant body of opinion in Britain that wants a federal United States of Europe, and therefore to have the whole trauma of a referendum to produce the result that we are already well aware of is a pretty pointless exercise."

Mr Heseltine said Britain's essential interests were "inextricably interwoven" with the EU. He said Lady Thatcher's position had always shown a certain "inconsistency" as she had taken the UK "further and deeper into Europe than any leader of this country has ever done".

Company property holdings 'to rise'

By Simon London, Property Correspondent

UK companies plan to increase their property holdings this year with the strongest demand likely to come from the retail sector, according to a survey published today.

The fourth biannual property survey by the Confederation of British Industry, the UK's largest employers' lobby, found that a net balance of 3 per cent of companies plan to increase their property holdings in the next six months. This compares with a negative balance of 5 per cent in the last survey.

The findings support the view of many investors that the commercial property market is poised for a sustained recovery after years of falling rents and contracting demand for premises.

Excluding the formerly state-owned utilities, which plan to reduce their property holdings sharply, a net balance of 18 per cent of companies said that they planned to expand.

The survey, carried out in conjunction with Grimley, the chartered surveyors, covered 660 companies. It found that big companies were generally more optimistic than their smaller counterparts. The strongest growth in demand for property is expected in south-west and north England and in the west Midlands.

Expansion of capacity is the main reason for capital spending on property. In the previous survey companies said that they were spending to increase efficiency.

Mr Sudhir Junankar, the CBI associate director of economic analysis, said: "This is encouraging because it suggests that companies are starting to equip themselves for a quickening in the pace of business activity."

However, shortages of suitable new properties and difficulties with disposing of older premises are preventing companies from investing.

This underlines that many regions of the UK face a shortage of new buildings.

Monopoly probe of N Ireland electricity urged

By Simon Holberton

Mr Douglas McIldoon, the electricity regulator in Northern Ireland, is poised to recommend a Monopolies and Mergers Commission inquiry into the province's electricity generation industry.

This follows the failure of talks between the regulator and the generation industry to strike a deal to lower tariffs voluntarily.

Industrial and household consumers pay more than 20 per cent more for electricity in Northern Ireland compared with mainland Britain.

Mr Charles Coulthard, the deputy-director general of Offer Northern Ireland, said it had been in discussion with the generators but had not been able to reach agreement with them to cut prices.

He said Mr McIldoon would publish a consultation paper within 10 days recommending the industry be referred to the MMC. The reference would be under the Fair Trading Act and would seek to demonstrate that a complex monopoly operated against the public interest. The recommendation would have to be approved by the competition authorities.

Offer NI believes prices in Northern Ireland are higher than the mainland because of the structure of generation contracts which Northern Ireland Electricity – the province's privatised power transmission, distribution and supply company – entered into in 1992. These reward the generators – principally Transco International, the British Gas subsidiary, and Nigen, a joint venture between Tractebel of Belgium and AES of the US – for making their plant available for generation.

The fee for plant availability was set in 1992 and indexed to inflation. It takes no account of improvements in efficiency.

"The problem with the contracts is that any improvements made in efficiency are kept by the generators and not passed to the consumer," an official said. Offer NI believes the generators have improved plant efficiency by more than 20 per cent since 1992 and that their prices should reflect that.

It will take Offer NI two months to put its MMC reference together. The reference would be confined to the generators' contracts with Northern Ireland Electricity's power procurement division.

British Energy plots a cautious way forward

By Stefan Wagstyl and Simon Holberton

Companies listing on the stock market must strike a delicate balance between enthusiasm and caution. Too much gush about future plans and the investors get nervous. Too little and they turn away.

For British Energy, the state-owned nuclear power company which is being privatised, the dilemma is particularly acute. Its present business offers little opportunity of expansion in the foreseeable future. But privatised utilities have yet to distinguish themselves with their diversifications. So, what will British Energy do, once it is free of the restraints of government control?

The company promises to pay considerable amounts in dividends – £96m ($147m) in 1996-97 – but that will still leave plenty to invest in the business.

Both Mr John Robb, the chairman, and Mr Robert Hawley, the chief executive, put a high priority on reducing the £700m debt. Mr Hawley's plan for increasing cashflow and profits is to improve output and cut costs, examine new opportunities in the UK, and diversify overseas.

Mr Hawley says that, with life extensions, the first plant is not due to close until at least 2011, giving plenty of time to maximise cashflow and profits. But this will never be done at the expense of safety. "Our bottom line is safety. Profit comes one line above it," he says.

British Energy cannot cut costs as much as National Power and PowerGen, the two biggest thermal power generators, have done because of the need to maintain engineering skills. No-one else could maintain the company's seven advanced gas-cooled reactors (AGRs).

The company is considering possible investments in niche markets and in generating at peak times.

But the company is making savings by pooling resources – such as engineers – between stations.

There will also be savings in rationalising the complex structure in which operations are divided between two main subsidiaries – Nuclear Electric, with six power plants, and Scottish Nuclear, with two. Mr Robb says the split, created for political reasons, makes little commercial sense and will eventually go.

Mr Robb adds that the pressures on British Energy to raise profitability will be greater than for most companies because of the expected decline in electricity prices.

Mr Hawley says that as there is overcapacity in electricity generation there will be few opportunities to develop new UK capacity. But British Energy is considering possible investments in niche markets and in generating at peak times. These include joint ventures with other companies. "We want a degree of diversification but it won't be massive." But Mr Hawley insists that the company will not follow other generators in bidding for regional electricity companys because after the liberalisation of supply in 1998 it will not be necessary.

He says the company will be equally cautious in international diversification. It will not build nuclear power stations, but sees opportunities in expanding its overseas consultancy business. It hopes to offer advice to overseas operators, particularly small ones. Mr Hawley sees his market as companies with only one or two reactors – 40 of them in the US and 46 elsewhere. But he will not take take any rash decisions.

UK NEWS DIGEST

Exporters lose market share

A lack of competitiveness in British manufacturing means that the value of the UK's exports could be overtaken this year by those of Italy, according to a new report.

The Centre for Economics and Business Research argues that weak demand in Europe and the shedding of excess stocks of unsold goods are insufficient to explain the weakness of factory output. "The real culprit is the continuing loss of market share by UK producers both to imports and in export markets", says Mr Doug McWilliams, the chief executive of the CEBR.

Mr McWilliams argues that UK exporters have failed to take advantage of the fall in the pound which followed Britain's departure from the European exchange rate mechanism. He said that the degree to which UK exports had failed to keep up with demand growth in overseas markets was the largest in the industrial world.

In response to the emerging competitiveness problem, the CEBR revised down its growth forecast for this year from 2.5 to 2.1 per cent and for next year from 2.4 to 2.2 per cent. But he added that the inability of the official statistics to capture trends in the software sector and new and small firms meant the true growth figure this year might actually be closer to 3 per cent. Mr McWilliams predicted that growth next year would be restrained by uncertainties about the election and a possible change in government. Interest rates are expected to remain at their current level until mid-1997 and then to rise gently to a peak for the cycle of 7 per cent in 1998.

Robert Chote, Economics Editor

Consumers want animal test ban

Four out of five consumers want a ban on the use of animals to test cosmetics and toiletries, with two in three people saying they would consider boycotting products which have been tested on animals, according to a survey carried out for CWS, the Co-op retailing group.

The finding comes as CWS says it has obtained a draft of a European Commission document which recommends the indefinite postponement of a complete ban on animal testing for cosmetics by 1998. CWS says it blames the postponement on insufficient funding and poor industry co-operation on research into alternative testing methods. NOP, the survey company, polled more than 1,000 people in the UK for the CWS study, while Taylor Nelson AGB, the research group, interviewed 15 groups. *Diane Summers, Marketing Correspondent*

School-leaver vacancies unfilled

Increasing number of employers are finding it difficult to fill their vacancies for school-leavers, although unemployment among young people is twice as high as in the labour force as a whole, according to IRS, the independent employment research organisation. It said 29 per cent of a surveyed sample of organisations reported difficulties this year, compared with 22 per cent in 1995.

The IRS survey says: "Recruitment difficulties are highest among organisations trying to recruit school-leavers to apprenticeship schemes. Most organisations say that the main problem is trying to find recruits of the standard they require.

Andrew Bolger, Employment Correspondent

Jersey casino plan opposed

A survey of Jersey's financial institutions has shown that a majority are against a casino being allowed to set up on the island. The States of Jersey is to debate a private member's bill tomorrow which would allow a casino to be established in the holiday resort for the first time. *Philip Jeune, Jersey*

FINANCIAL TIMES
COMPANIES & MARKETS

Monday June 17 1996

Petronas buys 30% stake in Engen

By Mark Ashurst in Johannesburg

Petronas, the state-owned Malaysian oil and gas company, has acquired a 30 per cent interest in Engen, South Africa's biggest oil retailer, in a move that heralds further restructuring in the African liquid fuels industry.

Petronas will pay R1.9bn ($436m) for the stake, the largest foreign investment since the country's transition from apartheid. The price includes a premium of 35 per cent to the price on June 11, when trade in Engen was suspended in Johannesburg. It is believed to be the largest single new foreign investment in South African history.

Engen will raise R605m from a rights issue as part of the deal, but Mr Rob Angel, chief executive, would not disclose his plans for the money.

Analysts expected it to resume merger talks with Sasol, the synthetic fuels producer which makes oil from coal. "It is no secret that Engen wants more expertise on the refining side and that Sasol wants a bigger share of the retail market," said one.

Talks between the two companies collapsed last year because of a dispute between Sasol and Total, the French multinational, related to their joint interests in Natref, a local oil refinery. That has now been resolved. "Engen would welcome discussions with Sasol," said Mr Angel.

Engen will not buy Malaysian crude directly from Petronas, although the deal would improve its access to overseas oil supplies and create a more efficient international oil market. "Our aim is not to find a home for crude, but an opportunity to optimise crude availability," said Mr Dató Hassan Marican, chief executive of Petronas. Co-operation between the two would provide a basis for their expansion in Africa and the Indian Ocean rim.

The investment also entails a significant, if modest restructuring of the South African corporate sector. Sanlam, the South African insurance group and Engen's largest shareholder, has guaranteed to transfer such shares to Petronas as may be necessary after the rights issue to ensure its ultimate shareholding of 30 per cent.

Mr Marinus Daling, Sanlam chairman, expected its stake in Engen, which is held jointly with Rembrandt, the tobacco and luxury goods group, to fall from 30 per cent to between 15 and 20 per cent. "There has been a lot of criticism that South African conglomerates don't allow foreigners into this country. But if there is a good deal to be done, we will do it. There will be more," he said.

On the prospect of a merger with Sasol, in which Sanlam is heavily weighted, he said Sanlam could have transferred its stake in Engen directly to Sasol. The deal with Petronas would add value to Engen's current business: "You can't do a deal of this magnitude in order to have a shot at something else."

Lex, Page 18

Compass wins fight for Eurest France

By David Blackwell

UK contract catering group to gain full control of target after French rival agrees to drop legal action over deal with managers

Compass, the contract catering group, will announce today that it is paying FFr590m ($113.5m) to buy out the interest in Eurest France held by its rival Sodexho.

The deal marks the end of a bitter struggle by Sodexho, the leading French contract caterer that also owns Gardner Merchant of the UK, to stop Compass gaining full control of Eurest France.

Sodexho has agreed to drop all legal action in respect of Compass's deal last April with the 55 Eurest France managers, who held about a third of the shares but who had 58 per cent of the voting rights. The managers backed a Compass offer of FFr640m in spite of an offer of FFr694m from Sodexho.

Compass will also pay FFr2.8m for the 0.16 per cent held by Epargne Développement, venture capitalists that have also agreed not to pursue legal action.

Winning the battle for Eurest France is strategically important for Compass, which regards the company as a foundation stone for expansion into France. At present Compass' only French operation is at Charles de Gaulle airport, with sales of about £16m. The potential French market is worth about FFr100bn a year, of which only about 20 per cent is under contract.

Mr Francis Mackay, Compass chief executive, said yesterday that he was delighted to have reached an amicable agreement with Sodexho which finally secured the ownership of Eurest France.

Eurest France was the third largest contract caterer in France, "but it offers the best quality". Compass would help Mr Philippe Durand-Daguin, president of Eurest France, to take advantage of the group's product range, including the introduction of its brands, such as Upper Crust, to the French market.

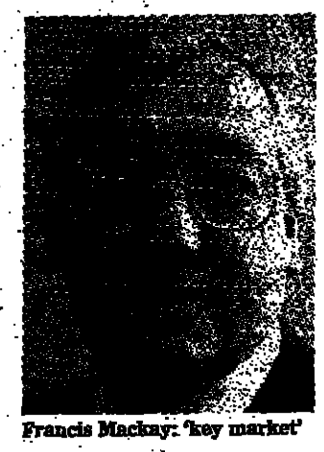
"France is a key market within Europe and Eurest France has a strong management team, an excellent reputation and is well placed for future growth," said Mr Mackay.

Eurest France made profits of FFr140.4m on sales of FFr2.86bn in the year to February 28 1995, the last audited accounts. Sales last year grew a further 6 per cent.

Compass acquired its interest in Eurest France when it bought Eurest International from Accor for £591m ($904m) last July. But the deal included only a third of the shares – the managers and Sodexho held most of the rest between them.

Sodexho said then that it "was surprised not to have been informed in advance" of the deal and would ensure that its rights as a shareholder were fully safeguarded.

Compass was confident at the time that in due course it would "be able to acquire a sufficient interest such as to exercise overall control of Eurest France". Even so, most observers will be surprised at the speed of Sodexho's retreat.


Francis Mackay: 'key market'

Richard Tomkins on airlines' ventures into cyberspace in their quest to fill unused capacity

Passengers take a seat at the Internet auction

US airlines made net profits of $2.4bn last year – the biggest in the industry's history. But how much more would the airlines have made if only they had filled those rows of empty seats?

Thanks to record passenger numbers, US airlines filled a higher proportion of seats last year than at any time since the second world war. Even so, over the year, they sold only 65.7 per cent of capacity on domestic flights.

According to one Wall Street analyst, profits would have soared to more than $8bn if the airlines had been able to fill their aircraft. Now some airlines are experimenting with ways of doing just that – by auctioning their empty seats in cyberspace.

In the past few weeks, American Airlines has conducted auctions on the Internet in which it attracted 2,000 bids for 20 pairs of round-trip tickets to destinations in the US and overseas.

Last night, marking the 15th anniversary of its frequent flyer programme, American Airlines opened another Internet seat auction, this time inviting people to submit their bids in frequent flyer miles instead of cash.

American Airlines describes these auctions as experimental, and the proceeds are going to charity. But the company says it is only a matter of time before it puts its auctions into commercial use.

"An airline seat is a perishable product: it can never be put on the shelf and sold again once it leaves the ground empty," American Airlines says. "Our challenge is to find ways to sell seats that would otherwise go unsold without diluting the yield from seats that would sell."

American Airlines is not the only carrier experimenting with seat auctions. The Hong Kong-based Cathay Pacific is conducting its third Internet auction in the US, offering 387 tickets on its services from the US to Hong Kong.

Cathay says the response to the latest auction has been "phenomenal" – more than 10,000 bids have been received so far. It expects proceeds from the three auctions to total $325,000, most of which will translate into profit.

One analyst says 100 per cent passenger loadings would have almost quadrupled US airlines' profits last year

Airlines, of course, have been using the price mechanism to maximise revenues for years, using computers to predict demand at various price levels and offering different types of tickets accordingly.

But electronic media could bring significant changes to the way airline tickets are sold – particularly in the US, where access to these media is greatest. Mr Julius Maldutis, analyst at Salomon Brothers, says they could bring a "third revolution" to the US airline industry, comparable to those prompted by the introduction of jet aircraft in the late 1950s and by deregulation in 1978.

For airlines, part of the appeal of selling tickets through electronic media is the chance to cut travel agents' commissions. These cost US airlines $6.4bn last year, amounting to 9 per cent of the industry's total operating costs.

Mr Maldutis, however, says a bigger opportunity for change lies on the revenue side of the equation, because electronic media such as the Internet will make it possible for airlines to fill unsold seats by auctioning them.

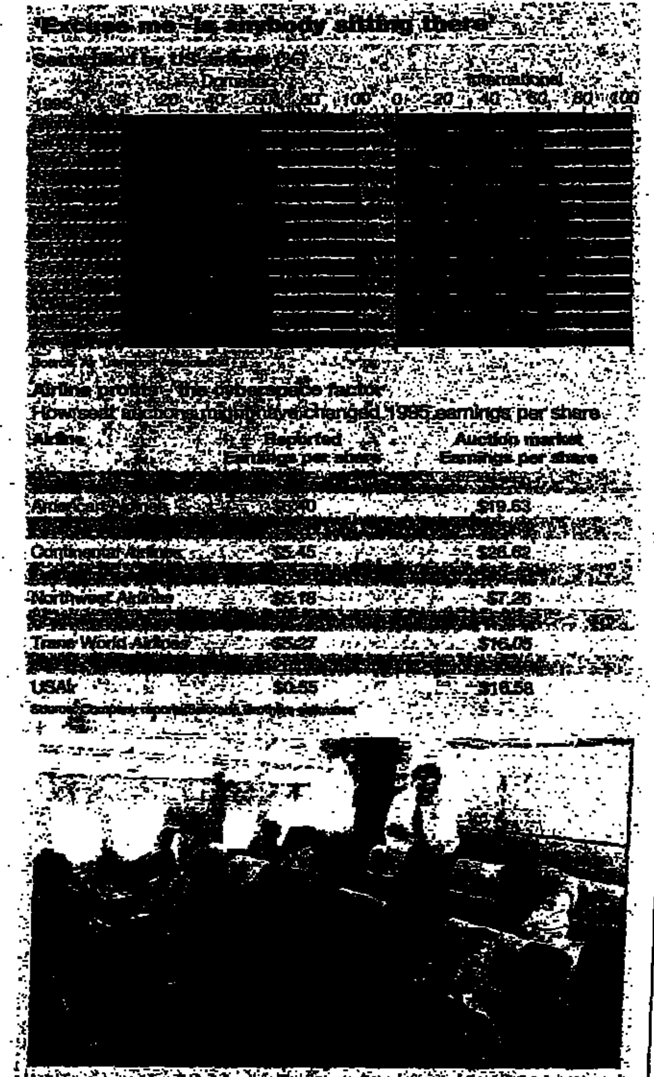
If the idea catches on, passengers who need to make firm plans will continue to make reservations in the usual way. But a day or two before departure, when airline managers can be certain how many unsold seats will remain, the empty seats on a given flight will be auctioned off.

The winners may end up flying for only a fraction of the full fare. But as additional passengers are carried at little extra cost to the airline, nearly all the money they pay will flow through into profit.

One danger for the airlines is that some passengers who would normally pay full fare will wait for the auction to get their seat at a lower price. But even allowing for a 25 per cent fall in the average fare paid, Mr Maldutis calculates that 100 per cent passenger loadings would have produced net profits of $8.3bn for the US airline industry last year – nearly four times the reported figure.

Mr Mark Shields, a vice-president in Mercer Management Consulting's aviation practice in Washington, agrees with the concept, but sees potential flaws. Some services may be impossible to fill at any price, he says. "There is certainly some pent-up demand, but I don't believe the market is that elastic." And if a given route did achieve a load factor of 100 per cent, it would inevitably attract new capacity into the market.

On a more practical note, there is also the question of passenger acceptance. While low fares may be popular, crowded aircraft are not. "Passengers may start to shy away from flights that approach a load factor of 100 per cent," Mr Shields says. "I mean, I hate it when those middle seats are full. Don't you?"



UK insurer in motor repair move

By Ralph Atkins, Insurance Correspondent

Churchill, one of the UK's largest telephone-based motor insurers, is planning to trigger further evolution in the sector by diversifying into motor repairs.

The group, which is owned by Winterthur, the large Swiss insurer, is looking to gain extra benefits from a network of garages it has begun setting up to do complete crash repairs for Churchill's 600,000 motor policyholders.

So far two garages have been set up, in Rotherham and Manchester, with a third planned later this year elsewhere in England. Within three years it expects to have a network of at least 10.

The garages are part of Churchill's efforts to control costs in an increasingly competitive trading environment. But Mr Martin Long, chief executive, said: "Clearly setting up this whole infrastructure gives us opportunities other than just repairing cars – for example servicing, MOTs or supplying spare parts and radios."

A move into motor car maintainence would mark a further convergence between financial services and other industries following the decision by Tesco, the supermarket chain, to offer its Clubcard loyalty cardholders debit and interest paying facilities.

Churchill's initiative will put pressure on Direct Line, the UK's largest private motor insurer, which has begun setting up a similar chain of garages. Centres have opened so far in Wakefield and Croydon. Direct Line said there were "no plans at the moment" to move into maintainence but "it would be silly to say never".

Developing traditional services offered by garages would not only generate a new earnings stream for telephone-based insurers, it would also allow them to offer a more attractive package to drivers, who would be able to deal with a single company to look after all aspects of running a car.

However there may be some concern among shareholders at the prospect of a significant move by insurance companies beyond their traditional areas of expertise.

Telephone-based insurers have already diversified into home and travel insurance, and both Churchill and Direct Line are considering offering pet insurance. Churchill has not yet set a timetable for expanding the range of services which it offers to motorists.

INSIDE

Ferruzzi Finanziaria

The last vestige of the Ferruzzi family's short-lived agro-industrial empire disappeared over the weekend with Ferruzzi Finanziaria (Ferfin), the financial holding company, adopting the new name of Compart. Page 22

Facia Group

The successor to Facia Group, the failed UK retailing chain, yesterday claimed to have saved nearly 1,300 jobs by finding buyers for high street stores including Salisbury, Contessa and Sock Shop. KPMG, the receiver for some 600 former Facia outlets, said that secured creditors would be paid in full following the disposal of most of the group's operations. Page 20

Faces

The only men with Brady ($96.7bn) of bonds named after him flew into London last week. Mr Nicholas Brady (left), the former US treasury secretary whose eponymous plan to resolve the 1980s third world debt crisis spawned a new bond market, is the chairman of three Templeton funds which held their annual meetings in London last week. His own venture, Darby Overseas Investments, has some $175m at its disposal, some $30m of which is in Darby's management company that includes Brady's own money. Page 26

Fund Management

The UK unit trust sector is highly fragmented and seems able to resist the pressures for consolidation. A key reason for this seems to be that most unit trust groups are not independent, but offshoots of other types of company. Page 25

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Brokers raise French and German growth forecasts

By Paul Abrahams in London

Leading broking houses have lifted economic growth forecasts for Germany and France, Europe's most important economies. They expect stronger growth to boost shares in some cyclical and consumer sectors.

Morgan Stanley has upgraded this year's gross domestic product growth forecast for France from 1 per cent to 1.7 per cent, and expects 2.7 per cent next year. It believes Germany's year-on-year GDP growth for the second half should reach 3 per cent.

"We're at a turning point," says Mr Paul Brunker, European strategist at Robert Fleming Securities. "Improved industrial orders in Germany, unexpectedly strong continental car sales and rising French business confidence indicators are all pointing one way."

"The weakness in inflationary pressure suggests consumer spending is unlikely to be choked off by monetary tightening," says Mr Oliver Kamm, European equity strategist at James Capel.

This optimism has yet to be fully reflected in stock valuations. "People are still scarred by the first leg of the cycle in 1993 and 1994 which petered out," says Mr Brunker.

Most investment houses recommend industrial cyclicals such as the chemicals sector, which has outperformed the FT/S&P-A Europe Index by only 10 per cent in the past year. They also favour forestry, which in the past year has under-performed 20 per cent.

Mr Markus Rosgen, European strategist at Morgan Stanley, believes consumer cyclicals could benefit from the higher-than-expected growth. He recommends retailers, airlines and hotel groups which have all trailed the market.

But some cyclical sectors remain vulnerable, says Mr Kamm at James Capel. The steel industry is still having a torrid time, suffering from high stocks and weak prices.

Moreover, some countries are more vulnerable than others, says Mr Kamm. The Netherlands looks fully valued, with cyclical stocks already on high price/earnings multiples.

Not all analysts believe in the recovery. Mr Andrew Bell, European equity strategist at BZW, says it has downgraded this year's forecasts for Europe, excluding the UK. "There's a three-month risk period. We'll have to wait for first-half results. But at present, there's no firm floor to earnings forecasts and there's a significant risk of disappointment."

European financial results, Pages 23-25

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Sale of Facia units saves 1,300 jobs

By Tim Burt

The receivers to Facia Group, the failed retailing chain, yesterday claimed to have saved nearly 1,300 jobs by finding buyers for high street stores including Salisbury, Contessa and Sock Shop.

KPMG, the receiver for some 500 former Facia outlets, said that secured creditors would be paid in full following the disposal of most of the group's subsidiary operations.

United Mizrahi Bank of Israel, which appointed KPMG to seek buyers for the stores, is expected to receive about £7m to cover outstanding loans to Facia.

Although it declined to break down the value of the deals agreed at the weekend, KPMG said it was satisfied at the prices secured from a number of privately-owned retail bidders.

Some 75 Sock Shop outlets have been acquired for a "substantial but undisclosed sum" by Jumper, the UK retail chain, while fashion chain Red or Dead has been sold to Mr Wayne and Mrs Gerardine Hemmingway, its former owners.

Mr Tony Thompson, corporate recovery partner at KPMG, said: "We have now been able to sell the bulk of the Facia stores in receivership and thereby save nearly 1,000 jobs."

Meanwhile, Grant Thornton, receivers to Facia's Salisbury luggage chain, said it had sold 52 outlets to Carlton International, another privately-owned retailer.

Mr Maurice Withall, the receiver, said the deal would safeguard about 300 jobs. He added that Grant Thornton was hopeful of finding buyers for the 80 remaining Salisbury stores.

Earlier this month, it sold 29 shops to Mister Minit, the privately-owned Swiss store group.

KPMG, moreover, said that Chancerealm Group, the holding company owned by entrepreneur Mr Theo Paphitis, had acquired 80 Contessa stores, Facia's specialist lingerie retailer.

Fifteen months ago, Mr Paphitis bought the Ryman stationery chain from KPMG when it was receiver to Pentos Group.

The Facia outlets still to be sold include about 40 Contessa stores and a dozen Sock Shop outlets.

Facia's Oakland men's fashionwear business and the Tork jewellery chain also remain to be sold, although a deal is expected shortly.

The rest of the Facia Group, comprising 380 shoe shops previously owned by Sears, has been placed in administration under Price Waterhouse. They are unaffected by the latest deals.

Anglian Water to step out of its area

By Jane Martinson

Anglian Water is close to becoming the first utility to provide water direct to a customer outside of its area under government plans for increased competition in the monopoly water industry.

A decision by Ofwat, the industry regulator, last week has removed the largest obstacle to the deal so far. Anglian now believes that the final stages of the plan, the first of its kind, will start at the end of this week with a public consultation exercise.

Mr John Smith, director of regulation at Anglian Water Services, said: "We are fairly close now to getting the licence."

The utility first applied to sell water to Buxted Chickens – a poultry factory currently supplied by neighbouring Essex and Suffolk Water – last August. That application was one of 15 made under the "inset appointment" scheme set up by the government four years ago to encourage competition in the monopoly water industry.

The appointments are designed to enable rival companies to supply water to large industrial users, defined as those which use more than 250 megalitres of water a year. There are about 600 such plants in the UK.

However, because of a range of legal and technical difficulties, none of the applications have yet been agreed.

The Anglian deal will involve building a pipe less than 5kms long from a groundwater source in the Anglian area to the factory near Bungay in Suffolk.

Buxted Chickens is part of the Hillsdown Holdings group, the food manufacturer and processor, which is already an Anglian customer.

Until last week the Anglian Water proposals were held up by Ofwat suggestions that the group should set up a separate supply company for the deal. Last week Ofwat agreed that the deal could go ahead through a variation to Anglian's existing licence.

The agreement will be the first of its kind to allow a water company to lay pipes to supply a customer in a neighbouring area. The plans only really allow effective competition for large customers on a bordering area.

Heron sits on £110m cash for acquisitions

By Simon London, Property Correspondent

Heron International, the property company run by Mr Gerald Ronson which was rescued last year by a US investor group, has built a £110m cash pile to finance acquisitions.

The company's first annual accounts since its near collapse show that it had net assets of £188m at the end of 1995, equivalent to assets per share of about 200p, and net debt of £42.8m.

It has since sold about £150m of properties, including the £24m sale last week of the Victoria Place Shopping Centre in central London.

Further disposals of up to £40m are likely during the remainder of this year as the company sheds properties which do not meet its investment criteria.

Some of this cash will be used to finance property development projects in Barcelona and in Madrid, where Heron is converting a 120,000 sq ft office block into flats. It is also looking for developments in the City and West End of London.

The total cost of the development programme is likely to be about £100m, although more than half could be raised from banks.

Mr Ronson has also said that Heron is looking for large property acquisitions.

It is bidding for £300m of property assets being sold by MACIF, the French insurer. It is also trying to acquire Caledonian Land, the Scottish industrial property company with assets of about £100m which is being sold by SPP, the Swedish financial institution.

Heron's US shareholders, led by Mr Steven Green, the entrepreneur and former head of the Samsonite luggage business, last year paid £141.6m for an 80 per cent stake in what was once the UK's largest private company.

The original shareholders and creditors, including Ronson family interests, hold the remaining 20 per cent.

The accounts reveal that Mr Ronson and Mr Alan Goldman, his long-time business partner, have been granted options over a further 11 per cent of the company.

The options over 10.5m shares are exercisable from January 1998 at 199p per share, rising by 10 per cent a year compound.

The exercise price is based on the 150p a share that the US consortium paid for its stake.

Williams set to sell electronics side to managers for about £80m

By Ross Tieman

Trevor Humphries

Sir Nigel Rudd: divesting peripheral businesses in order to sharpen focus on three core areas

Williams Holdings is poised to unveil the sale of its electronics business to management for about £80m.

More disposals are expected to follow as the industrial conglomerate, which is chaired by Sir Nigel Rudd, divests peripheral businesses to sharpen its focus on three core areas: fire protection, locks, and building products.

A clutch of well-known brands, ranging from Smallbone fitted kitchens and Amdega conservatories to Valor heaters and Vi-Spring beds, are thought to be for sale if acceptable prices can be achieved.

The electronics sale now nearing agreement is believed to be modelled on the disposal of Williams' Cortworth engineering business.

Cortworth, with annual sales of £46m, was sold to its managers in December 1993 for £40.3m. Williams retained a 19 per cent stake, which last November was worth £13.6m when Cortworth was floated with a market capitalisation of £71.6m.

Williams' electronics business embraces three companies which formed part of its 1988 acquisition of another conglomerate, Pilgrim House.

They claim to be leading manufacturers of micros-witches, motors, timers and programmable controllers for use in cars, consumer goods and office equipment. Mercedes-Benz is a key customer.

Together with the Fairey military bridging business, with which they share management, last year they made an operating profit of £9m on sales of £115m.

Burgess has plants in Britain and Germany making components for micro-switches. It is benefiting from rising output by the British automotive industry and is increasing sales in south America. Saia, a sister company in Switzerland, is the main centre for volume production of micro-switches, motors and electronic controllers. It has a second plant in Germany.

The Fairey business, which accounts for only a small proportion of total sales, is thought to be for sale separately.

Analysts expect Williams to achieve a price between £60m and £90m for the electronics companies.

"This is not an underperforming situation," said one. "Williams have done well with it. They have held it until European car sales are starting to show a recovery."

Mr Roger Carr, Williams' chief executive, is understood to have explored the possibility of a trade sale and a flotation. But he concluded that Williams could achieve the best value for shareholders by following the Cortworth route.

NEWS DIGEST

Belhaven hopes for up to £22m

Belhaven Brewery, the Scottish regional brewer, expects to raise up to £22m in its stock exchange placing, which is expected to value it at more than £35m.

The placing will be used to reduce borrowings, develop Belhaven's business and enable shareholders to realise part of their investments

Belhaven, which supplies its own managed and tenanted pubs, as well as the large Scottish free trade, was acquired by its management and venture capitalists from Ascot Holdings for £31.5m in 1993.

The pathfinder prospectus, published today, says current sales are in line with expectations. In the year to March 31 operating profit was £4.2m on turnover of £29.6m.

The brewer expects to expand by acquiring more pubs and by upgrading its existing tenanted estate.

The prospectus will be issued on July 4 and trading will begin on July 12. The flotation is sponsored by HSBC Samuel Montagu. *James Buxton*

IP sells Capital Radio stake

IP, part of the French media group Havas, is raising £93.3m from the disposal of its 18.9 per cent holding in Capital Radio.

Its stake in Capital – 13.82m shares – is being placed with UK and international investors at 675p a share.

When Capital announced the sale earlier this month it said the stake would go to institutions rather than to a single strategic investor which might use it as a foothold for a bid.

Five Oaks in Mayfair deal

Five Oaks Investments, the property company, has bought a 25,216 sq ft freehold London office building for £6.19m in a joint venture with PDFM.

The property, in Mayfair, currently produces annual rent of £534,000. However, the partners said they would be seeking planning consent to redevelop it into an office, restaurant and shopping complex worth about £30m.

Five Oaks is subscribing for 25 per cent of the total equity of the venture.

Brixton Estate disposal

Brixton Estate has completed the sale of a property in Melbourne, Australia, to Wing On Company International of Hong Kong for A$36.6m (£18.9m) cash.

The 179,000 sq ft office building in St Kilda Road produces an annual income of more than A$3.5m. Brixton will use the proceeds to invest in industrial and warehouse estates in the south-east of England.

Harmony Healthcare £9.6m buy

Harmony Healthcare, the care company privately funded by four investing groups, has made its biggest acquisition to date with the £9.55m purchase of the Serene Care Group.

Serene owns seven nursing homes, taking Harmony's total to 12.

Mr Andrew Cohen, chairman, said that a particular attraction of the acquisition was valid planning permission that would allow an expansion in bed capacity of about 33 per cent.

Tamaris £1.57m acquisition

Tamaris, the nursing home group, is paying up to £1.57m for a 49.9 per cent stake in Continental Shelf 55, a new company formed to acquire Lodge Care, a UK-based nursing home owner and operator.

Tamaris nearly doubled its size in the year to May 30, moving from eight to 15 homes.

The acquisitions had included a £7.23m purchase made through Triasma Homes, which is another special-purpose company.

BICC in £17m Indian cables plant venture

By Tim Burt

BICC, the international cables and construction company, has signed a £17m deal to build a power cables plant in India.

The UK-based group has linked with RPG, the Indian cables manufacturer, to tap the country's £1bn-a-year cables market. The joint venture company RPG-BICC Power Cables is planning to build a plant at Nagpur in the state of Maharashtra.

A similar joint venture between the two companies in 1994 involved an optical fibre plant at Mysore.

BICC's initial 26 per cent stake in the latest venture will rise to between 38 per cent and 49 per cent in 1999.

Westminster Health contemplates a hostile £70m bid for Goldsborough

By Tim Burt

Westminster Health Care, one of Britain's largest nursing home operators, is contemplating making a £70m hostile takeover bid for its smaller rival Goldsborough Healthcare.

The company met its advisers at ING Barings last night to discuss the terms of a possible bid, thought to involve a mixed paper and cash offer valuing Goldsborough at about 150p-160p a share.

Goldsborough shares closed at 119p on Friday, compared with its November 1994 flotation price of 170p.

Expectations of a hostile takeover rose at the weekend after Goldsborough rejected an invitation by Westminster to consider a friendly approach.

Mr Pat Carter, Westminster chief executive, raised the possibility of an agreed deal at a meeting last Friday with Mr Graham Smith, his Goldsborough opposite number.

Goldsborough, however, indicated yesterday that it was unlikely to endorse a tie-up with Westminster, which operates more than 80 purpose-built nursing homes as well as diagnostic imaging services and acute care sites. Sir Brian Hill, Goldsborough chairman, said: "We are not in talks. If there was a bid we would look at it carefully, but at this moment, we would not welcome one."

Westminster, which wants to develop specialist healthcare services, has been attracted by Goldsborough's success in diversifying into acute care hospitals and homecare.

Both companies have developed such activities as an alternative income stream to traditional nursing homes. Profit margins in nursing homes have been squeezed because of a lack of funds among some local authorities for spending on the elderly and the cost of buying land.

Westminster last year launched a £33.7m rights issue and arranged a £100m banking facility to reduce borrowings and provide funds for internal investment and acquisitions.

It first considered acquiring Goldsborough last November, but was rebuffed.

Although Goldsborough has reduced its exposure to nursing homes, some industry analysts believe the cost of that effort has made it vulnerable.

Goldsborough, advised by SBC Warburg, last week announced a modest 4 per cent rise in pre-tax profits to £3.2m, although sales rose 31 per cent to £32m in the six months to March 31. It was restrained partly by increased interest costs of £1.49m (£824,000).

First-half profits at Westminster rose from £6.3m to £8m on sales of £40.4m (£32.7m). Its shares were unchanged at 318p on Friday.

Istituto Bancario San Paolo di Torino S.p.A.

(as successor to CREDIOP – *Credito per le Imprese e le Opere Pubbliche S.p.A.*)

Notice to the Holders of the outstanding

Italian Lire 500,000,000,000 10.65 per cent. Notes due 2002

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Notes (the "Noteholders") convened by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") will be held at the offices of Field Fisher Waterhouse at 41 Vine Street, London EC3N 2AA on 11 July 1996 at 9.45am (London time) for the *purpose* of considering and, if thought fit, *passing the following resolution* which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 17 March 1992 (the "Fiscal Agency Agreement") made between Consorzio di Credito per le Opere Pubbliche – CREDIOP (subsequently renamed CREDIOP – *Credito per le Imprese e le Opere Pubbliche S.p.A.*) (to all of whose assets and liabilities, including liabilities under the Notes, San Paolo S.p.A. has succeeded by way of universal succession following a merger pursuant to Articles 2501 to 2504 of the Italian Civil Code), Banque Générale du Luxembourg S.A. as fiscal agent and principal paying agent (the "Fiscal Agent") and Istituto Bancario San Paolo di Torino S.p.A. as paying agent (together with the Fiscal Agent, the "Paying Agents").

EXTRAORDINARY RESOLUTION

"That this Meeting of the holders of the outstanding Italian Lire 500,000,000,000 10.65 per cent. Notes due 2002 (the "Notes"):

(i) hereby sanctions the conversion of the Notes into Notes issued by CREDIOP S.p.A. (the "Substituted Issuer") with effect from 31 January 1996, subject to the following conditions:

(a) a guarantee being issued by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") in favour of the holders of outstanding Notes and coupons in respect of the Substituted Issuer's obligations;

(b) consequential amendments relating to such conversion and such guarantee being made to the fiscal *agency agreement dated 17 March 1992 relating to the Notes (the "Fiscal Agency Agreement") and the* terms and conditions of the Notes (the "Conditions"); and

(c) the Substituted Issuer undertaking for the benefit of the holders of outstanding Notes and coupons to comply with, perform and observe the terms of the Fiscal Agency Agreement and the Notes, including the Conditions, as so amended,

by means of a guarantee, supplemental fiscal agency agreement and deed poll in the form of the drafts produced to the Meeting and initialled, for the purposes of identification, by the Chairman, and that this Meeting sanctions the execution of the same, with such minor modifications as may be approved by the Chairman, by all relevant parties;

(ii) hereby sanctions every abrogation, modification, variation, compromise or arrangement in respect of the rights of the holders of the Notes and the holders of the coupons relating to the Notes against CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A., San Paolo S.p.A. or the Substituted Issuer involved in or resulting from the succession by San Paolo S.p.A. to the assets and liabilities of CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A. and/or the terms of paragraph (i) of this resolution; and

(iii) hereby authorises Banque Générale du Luxembourg S.A. (in accordance with its usual practice as fiscal agent) to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give effect to paragraphs (i) and (ii) of this resolution."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for any adjourned Meeting which is set out in paragraph 4 of "Voting and Quorum" below.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, a draft supplemental fiscal agency agreement to amend the Fiscal Agency Agreement, a draft deed poll to be executed by CREDIOP S.p.A., a draft guarantee to be issued by San Paolo S.p.A. and draft legal opinions of Chiomenti e Associati and Field Fisher Waterhouse may be inspected at, and voting certificates may be obtained from, the specified office of the Fiscal Agent or any of the Paying Agents given below.

VOTING AND QUORUM

1. If you wish to attend and vote at the Meeting in person, you must produce at the Meeting either your Note(s), or a valid voting certificate or certificates issued by the Fiscal Agent or another Paying Agent relating to the Note(s) in respect of which you wish to vote.
2. If you do not wish to attend and vote at the Meeting in person, you may either deliver your Note(s) or voting certificate(s) to the person whom you wish to attend on your behalf or give a voting instruction (on a voting instruction *form obtainable from the specified office of the Fiscal Agent or another Paying Agent given below) instructing the* Fiscal Agent or another Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with your instructions. In the case of Notes held through Cedel Bank société anonyme ("Cedel Bank") or the Euroclear System voting instructions are to be given in accordance with the present procedures of Cedel Bank or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System.
3. Note(s) may be deposited with the Fiscal Agent or another Paying Agent or (to the satisfaction of the Fiscal Agent or such Paying Agent) be held to its order or under its control by a bank or other depositary for the purpose of obtaining voting certificates or giving voting instructions and requiring the Fiscal Agent or such Paying Agent to appoint proxies, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting). Note(s) so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time fixed for the Meeting (or, if applicable, any such adjournment), the surrender of the receipt(s) issued in respect of the relevant Note(s).
4. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being proxies for or representing in the aggregate the holders of a clear majority in principal amount of the Notes for the time being outstanding. If within 15 minutes from the time appointed for any such Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 14 days nor more than 42 days, and to such place as may be appointed by the Chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more persons present holding Notes or voting certificates or being proxies or representatives, whatever the principal amount of the Notes so held or represented by them.
5. Every question submitted to the Meeting will be decided by a show of hands unless a poll is duly demanded by the Chairman of the Meeting or the Issuer or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or a voting certificate or is a proxy or a representative shall have one vote. On a poll every person who is so present shall have one vote in respect of each Italian Lire 5,000,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which that person is a proxy or representative. In the case of an equality of votes the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a holder of Notes or as a holder of a voting certificate or as a proxy holder or as a representative.
6. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75% of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the holders of the Notes, whether or not present at such Meeting, and upon all the holders of the coupons relating to such Notes.

FISCAL AGENT AND PRINCIPAL PAYING AGENT

Banque Générale du Luxembourg S.A.
50 Avenue J F Kennedy, 2951 Luxembourg

PAYING AGENTS

Istituto Bancario San Paolo di Torino S.p.A.
Piazza San Carlo 156, 10121 Turin, Italy

Istituto Bancario San Paolo di Torino S.p.A.
Wren House, 15 Carter Lane, London EC4V 5SP

By: Banque Générale du Luxembourg S.A.
as Fiscal Agent

17 June 1996

Istituto Bancario San Paolo di Torino S.p.A.

(as successor to CREDIOP – *Credito per le Imprese e le Opere Pubbliche S.p.A.*)

Notice to the Holders of the outstanding

Italian Lire 100,000,000,000 Floating Rate Notes due 2001

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Notes (the "Noteholders") convened by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") will be held at the offices of Field Fisher Waterhouse at 41 Vine Street, London EC3N 2AA on 11 July 1996 at 10.30am (London time) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 24 June 1991 (the "Fiscal Agency Agreement") made between Consorzio di Credito per le Opere Pubbliche – CREDIOP (subsequently renamed CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A.) (to all of whose assets and liabilities, including liabilities under the Notes, San Paolo S.p.A. has succeeded by way of universal succession following a merger pursuant to Articles 2501 to 2504 of the Italian Civil Code), The Chase Manhattan Bank, N.A. as fiscal agent and paying agent (the "Fiscal Agent") and Chase Manhattan Bank Luxembourg S.A. as paying agent (together with the Fiscal Agent, the "Paying Agents").

EXTRAORDINARY RESOLUTION

"That this Meeting of the holders of the outstanding Italian Lire 100,000,000,000 Floating Rate Notes due 2001 (the "Notes"):

(i) hereby sanctions the conversion of the Notes into Notes issued by CREDIOP S.p.A. (the "Substituted Issuer") with effect from 31 January 1996, subject to the following conditions:

(a) *a guarantee being issued by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") in favour of* the holders of outstanding Notes and coupons in respect of the Substituted Issuer's obligations;

(b) consequential amendments relating to such conversion and such guarantee being made to the fiscal agency agreement dated 24 June 1991 relating to the Notes (the "Fiscal Agency Agreement"), the calculation agency agreement dated 24 June 1991 relating to the Notes (the "Calculation Agency Agreement") and the conditions of the Notes (the "Conditions"); and

(c) the Substituted Issuer undertaking for the benefit of the holders of outstanding Notes and coupons to comply with, perform and observe the terms of the Fiscal Agency Agreement, the Calculation Agency Agreement and the Notes, including the Conditions, as so amended,

by means of a guarantee, supplemental fiscal agency agreement, supplemental calculation agency agreement and deed poll in the form of the drafts produced to the Meeting and initialled, for the purposes of identification, by the Chairman, and that this Meeting sanctions the execution of the same, with such minor modifications as may be approved by the Chairman, by all relevant parties;

(ii) hereby sanctions every abrogation, modification, variation, compromise or arrangement in respect of the rights of the holders of the Notes and the holders of the coupons relating to the Notes against CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A., San Paolo S.p.A. or the Substituted Issuer involved in or resulting from the succession by San Paolo S.p.A. to the assets and liabilities of CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A. and/or the terms of paragraph (i) of this resolution; and

(iii) hereby authorises The Chase Manhattan Bank, N.A. (in accordance with its usual practice as fiscal agent) to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give effect to paragraphs (i) and (ii) of this resolution."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for any adjourned Meeting which is set out in paragraph 4 of "Voting and Quorum" below.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, the Calculation Agency Agreement, a draft supplemental fiscal agency agreement to amend the Fiscal Agency Agreement, a draft supplemental calculation agency agreement to amend the Calculation Agency Agreement, a draft deed poll to be executed by CREDIOP S.p.A., a draft guarantee to be issued by San Paolo S.p.A. and draft legal opinions of Chiomenti e Associati and Field Fisher Waterhouse may be inspected at, and voting certificates may be obtained from, the specified office of the Fiscal Agent or any of the other Paying Agent given below.

VOTING AND QUORUM

1. If you wish to attend and vote at the Meeting in person, you must produce at the Meeting either your Note(s), or a valid voting certificate or certificates issued by the Fiscal Agent or the other Paying Agent relating to the Note(s) in respect of which you wish to vote.
2. If you do not wish to attend and vote at the Meeting in person, you may either deliver your Note(s) or voting certificate(s) to the person whom you wish to attend on your behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of the Fiscal Agent or the other Paying Agent given below) instructing the Fiscal Agent or the other Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with your instructions. In the case of Notes held through Cedel Bank société anonyme ("Cedel Bank") or the Euroclear System voting instructions are to be given in accordance with the present procedures of Cedel Bank or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System.
3. Note(s) may be deposited with the Fiscal Agent or the other Paying Agent or (to the satisfaction of the Fiscal Agent or such Paying Agent) be held to its order or under its control by a bank or other depositary for the purpose of obtaining voting certificates or giving voting instructions and requiring the Fiscal Agent or such Paying Agent to appoint proxies, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting). Note(s) so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time fixed for the Meeting (or, if applicable, any such adjournment), the surrender of the receipt(s) issued in respect of the relevant Note(s).
4. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being proxies for or representing in the aggregate a majority in principal amount of the Notes for the time being outstanding. If within half an hour from the time appointed for any such Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 7 days nor more than 42 days, and to such place as may be appointed by the Chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more persons present holding Notes or voting certificates or being proxies or representatives, whatever the principal amount of the Notes so held or represented by them.
5. Every question submitted to the Meeting will be decided by a show of hands unless a poll is duly demanded by the Chairman of the Meeting or the Issuer or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or a voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each Italian Lire 1,000,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which that person is a proxy. In the case of an equality of votes the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a holder of Notes or as a holder of a voting certificate or as a proxy or representing a holder of Notes.
6. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75% of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the holders of the Notes, whether or not present at such Meeting, and upon all the holders of the coupons relating to such Notes.

FISCAL AGENT AND PAYING AGENT	PAYING AGENT
The Chase Manhattan Bank, N.A.	*Chase Manhattan Bank Luxembourg S.A.*
Woolgate House, Coleman Street, London EC2P 2HD	5 Rue Plaetis, L-2338 Luxembourg-Grund

By: The Chase Manhattan Bank, N.A.
as Fiscal Agent

17 June 1996

Istituto Bancario San Paolo di Torino S.p.A.

(as successor to CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A.)

Notice to the Holders of the outstanding

Italian Lire 600,000,000,000 11½ per cent. Notes due 2001

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Notes (the "Noteholders") convened by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") will be held at the offices of Field Fisher Waterhouse at 41 Vine *Street, London EC3N 2AA on 11 July 1996 at 9.00am (London time) for the purpose of considering and, if thought fit,* passing the following resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 2 August 1991 (the "Fiscal Agency Agreement") made between Consorzio di Credito *per le Opere Pubbliche – CREDIOP (subsequently renamed CREDIOP – Credito per le Imprese e le Opere Pubbliche* S.p.A.) (to all of whose assets and liabilities, including liabilities under the Notes, San Paolo S.p.A. has succeeded by way of universal succession following a merger pursuant to Articles 2501 to 2504 of the Italian Civil Code), Bankers Trust *Company as fiscal agent and principal paying agent (the "Fiscal Agent") and Banco di Napoli S.p.A.,* Bankers Trust Luxembourg S.A. and Swiss Bank Corporation as paying agents (together with the Fiscal Agent, the "Paying Agents").

EXTRAORDINARY RESOLUTION

"That this Meeting of the holders of the outstanding Italian Lire 600,000,000,000 11½ per cent. Notes due 2001 (the "Notes"):

(i) hereby sanctions the conversion of the Notes into Notes issued by CREDIOP S.p.A. (the "Substituted Issuer") with effect from 31 January 1996, subject to the following conditions:

(a) *a guarantee being issued by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") in favour of* the holders of outstanding Notes and coupons in respect of the Substituted Issuer's obligations;

(b) consequential amendments relating to such conversion and such guarantee being made to the fiscal *agency agreement dated 2 August 1991 relating to the Notes (as supplemented by a first supplemental* fiscal agency agreement dated 1st November 1991, the "Fiscal Agency Agreement") and the terms and conditions of the Notes (the "Conditions"); and

(c) the Substituted Issuer undertaking for the benefit of the holders of outstanding Notes and coupons to comply with, perform and observe the terms of the Fiscal Agency Agreement and the Notes, including the Conditions, as so amended,

by means of a guarantee, second supplemental fiscal agency agreement and deed poll in the form of the drafts produced to the Meeting and initialled, for the purposes of identification, by the Chairman, and that this Meeting sanctions the execution of the same, with such minor modifications as may be approved by the Chairman, by all relevant parties;

(ii) *hereby sanctions* every abrogation, modification, variation, compromise or arrangement in respect of the rights of the holders of the Notes and the holders of the coupons relating to the Notes against CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A., San Paolo S.p.A. or the Substituted Issuer involved in or resulting from the succession by San Paolo S.p.A. to the assets and liabilities of CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A. and/or the terms of paragraph (i) of this resolution; and

(iii) hereby authorises Bankers Trust Company (in accordance with its usual practice as fiscal agent) to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give effect to paragraphs (i) and (ii) of this resolution."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for any adjourned Meeting which is set out in paragraph 4 of "Voting and Quorum" below.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, a draft supplemental fiscal agency agreement to amend the Fiscal Agency *Agreement, a draft deed poll to be executed by CREDIOP S.p.A., a draft guarantee to* be issued by San Paolo S.p.A. and draft legal opinions of Chiomenti e Associati and Field Fisher Waterhouse may be inspected at, and voting certificates may be obtained from, the specified office of the Fiscal Agent or any of the Paying Agents given below.

VOTING AND QUORUM

1. If you wish to attend and vote at the Meeting in person, you must produce at the Meeting either your Note(s), or a valid voting certificate or certificates issued by the Fiscal Agent or another Paying Agent relating to the Note(s) in respect of which you wish to vote.
2. If you do not wish to attend and vote at the Meeting in person, you may either deliver your Note(s) or voting certificate(s) to the person whom you wish to attend on your behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of the *Fiscal Agent* or another Paying Agent given below) instructing the Fiscal Agent or another Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with your instructions. In the case of Notes held through Cedel Bank société anonyme ("Cedel Bank") or the Euroclear System *voting instructions are to be given in accordance with the present procedures of Cedel Bank or Morgan Guaranty* Trust Company of New York, Brussels office, as operator of the Euroclear System.
3. Note(s) may be deposited with the Fiscal Agent or another Paying Agent or (to the satisfaction of the Fiscal Agent or such Paying Agent) be held to its order or under its control by a bank or other depositary for the purpose of obtaining voting certificates or giving voting instructions and requiring the Fiscal Agent or such Paying Agent to appoint proxies, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such *Meeting). Note(s) so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if* applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time fixed for the Meeting (or, if applicable, any such adjournment), the surrender of the receipt(s) issued *in respect of the relevant Note(s).*
4. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being proxies for or representing in the aggregate the holders of a clear majority in principal amount of the Notes for the time being outstanding. If within 15 minutes from the time appointed for any such Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 14 days nor more than 42 days, and to such place *as may* be appointed by the Chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more persons present holding Notes or voting certificates or being proxies or representatives, whatever the principal amount of the Notes so held or represented by them.
5. Every question submitted to the Meeting will be decided by a show of hands unless a poll is duly demanded by the Chairman of the Meeting or the Issuer or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one fiftieth part of the *principal* amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or a voting certificate or is a proxy or a representative shall have one vote. On a poll every person who is so present shall have one vote in respect of each Italian Lire 5,000,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which that person is a proxy or representative. *In the case* of an equality of votes the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a holder of Notes or as a holder of a voting certificate or as a proxy holder or as a representative.
6. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75% of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the holders of the Notes, whether or not present at such Meeting, and upon all the holders of the coupons relating to such Notes.

FISCAL AGENT AND PRINCIPAL PAYING AGENT

Bankers Trust Company
1 Appold Street, Broadgate, London EC2A 2HE

PAYING AGENTS

Banco di Napoli S.p.A.	Bankers Trust Luxembourg S.A.	Swiss Bank Corporation
Milan Branch	PO Box 807	Paradeplatz 6
Piazza Cordusio, 20123 Milan	*14 Boulevard F.D. Roosevelt, L-2450 Luxembourg*	*CH-8010 Zurich*

By: Bankers Trust Company
as Fiscal Agent

17 June 1996

Istituto Bancario San Paolo di Torino S.p.A.

(as successor to CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A.)

Notice to the Holders of the outstanding

Italian Lire 100,000,000,000 Floating Rate Notes due 2001

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Notes (the "Noteholders") convened by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") will be held at the offices of Field Fisher Waterhouse at 41 Vine Street, London EC3N 2AA on 11 July 1996 at 12.45pm (London time) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 26 November 1990 (the "Fiscal Agency Agreement") made between Consorzio di Credito per le Opere Pubbliche – CREDIOP (subsequently renamed CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A.) (to all of whose assets and liabilities, including liabilities under the Notes, San Paolo S.p.A. has succeeded by way of universal succession following a merger pursuant to Articles 2501 to 2504 of the Italian Civil Code), The Chase Manhattan Bank, N.A. as fiscal agent and principal paying agent (the "Fiscal Agent") and *Chase Manhattan* Bank Luxembourg S.A. as paying agent (together with the Fiscal Agent, the "Paying Agents").

EXTRAORDINARY RESOLUTION

"That this Meeting of the holders of the outstanding Italian Lire 100,000,000,000 Floating Rate Notes due 2001 (the "Notes"):

(i) hereby sanctions the conversion of the Notes into Notes issued by CREDIOP S.p.A. (the "Substituted Issuer") with effect from 31 January 1996, subject to the following conditions:

(a) a guarantee being issued by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") in favour of the holders of outstanding Notes and coupons in respect of the Substituted Issuer's obligations;

(b) consequential amendments relating to such conversion and such guarantee being made to the fiscal agency agreement dated 26 November 1990 relating to the Notes (the "Fiscal Agency Agreement"), the agent bank agreement dated 22 November 1990 relating to the Notes (the "Agent Bank Agreement") and the terms and conditions of the Notes (the "Conditions"); and

(c) the Substituted Issuer undertaking for the benefit of the holders of outstanding Notes and coupons to comply with, perform and observe the terms of the Fiscal Agency Agreement, the Agent Bank Agreement and the Notes, including the Conditions, as so amended,

by means of a guarantee, supplemental fiscal agency agreement, supplemental agent bank agreement and deed poll in the form of the drafts produced to the Meeting and initialled, for the purposes of identification, by the *Chairman, and that this Meeting sanctions the execution of the same,* with such minor modifications as may be approved by the Chairman, by all relevant parties;

(ii) *hereby sanctions every abrogation,* modification, variation, compromise or arrangement in respect of the rights *of the holders of the Notes and the holders of the coupons relating to the Notes against CREDIOP – Credito per* le Imprese e le Opere Pubbliche S.p.A., San Paolo S.p.A. or the Substituted Issuer involved in or resulting from the succession by San Paolo S.p.A. to the assets and liabilities of CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A. and/or the terms of paragraph (i) of this resolution; and

(iii) hereby authorises The Chase Manhattan Bank, N.A. (in accordance with its usual practice as fiscal agent) to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give effect to paragraphs (i) and (ii) of this resolution."

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for any adjourned Meeting *which is set out in paragraph 4 of "Voting and Quorum" below.*

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, the Agent Bank Agreement, a draft supplemental fiscal agency agreement to amend the Fiscal Agency Agreement, a draft supplemental agent bank agreement to amend the Agent Bank Agreement, a draft deed poll to be executed by CREDIOP S.p.A., a draft guarantee to be issued by San Paolo S.p.A. and draft legal opinions of Chiomenti e Associati and Field Fisher Waterhouse may be inspected at, and voting certificates may be obtained from, the specified office of the Fiscal Agent or the other Paying Agent given below.

VOTING AND QUORUM

1. If you wish to attend and vote at the Meeting in person, you must produce at the Meeting either your Note(s), or a valid voting certificate or certificates issued by the Fiscal Agent or the other Paying Agent relating to the Note(s) in respect of which you wish to vote.
2. If you do not wish to attend and vote at the Meeting in person, you may either deliver your Note(s) or voting certificate(s) to the person whom you wish to attend on your behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of the Fiscal Agent or the other Paying Agent given below) instructing the Fiscal Agent or the other Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with your instructions. In the case of Notes held through Cedel Bank société anonyme ("Cedel Bank") or the Euroclear System voting instructions are to be given in accordance with the present procedures of Cedel Bank or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System.
3. Note(s) may be deposited with the Fiscal Agent or the other Paying Agent or (to the satisfaction of the Fiscal Agent or such Paying Agent) be held to its order or under its control by a bank or other depositary for the purpose of obtaining voting certificates or giving voting instructions and requiring the Fiscal Agent or such Paying Agent to appoint proxies, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting). Note(s) so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time fixed for the Meeting (or, if applicable, any such adjournment), the surrender of the receipt(s) issued in respect of the relevant Note(s).
4. *The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being proxies for or representing in the aggregate a majority in principal amount of the Notes for the time being outstanding.* If within half an hour from the time appointed for any such Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 7 days nor more than 42 days, and to such place as may be appointed *by the Chairman of the Meeting.* At such adjourned Meeting the quorum shall be two or more persons present holding Notes or voting certificates or being proxies or representatives, whatever the principal amount of the Notes so held or represented by them.
5. Every question submitted to the Meeting will be decided by a show of hands unless a poll is duly demanded by the Chairman of the Meeting or the Issuer or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or a voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each Italian Lire 1,000,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which that person is a proxy. In the case of an equality of votes the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a holder of Notes or as a holder of a voting certificate or as a proxy or representing a holder of Notes.
6. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75% of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the holders of the Notes, whether or not present at such Meeting, and upon all the holders of the Coupons relating to such Notes.

FISCAL AGENT AND PRINCIPAL PAYING AGENT	PAYING AGENT
The Chase Manhattan Bank, N.A.	Chase Manhattan Bank Luxembourg S.A.
Woolgate House, Coleman Street, London EC2P 2HD	5 Rue Plaetis, L-2338 Luxembourg-Grund

By: The Chase Manhattan Bank, N.A.
as Fiscal Agent

17 June 1996

Istituto Bancario San Paolo di Torino S.p.A.

(as successor to CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A.)

Notice to the Holders of the outstanding

Italian Lire 50,000,000,000 11.30 per cent. Notes due 2001

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Notes (the "Noteholders") convened by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") will be held at the offices of Field Fisher Waterhouse at 41 Vine *Street, London EC3N 2AA on 11 July 1996 at 12 noon (London time) for the purpose of considering and, if thought fit,* passing the following resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 24 June 1991 (the "Fiscal Agency Agreement") made between Consorzio di Credito *per le Opere Pubbliche – CREDIOP (subsequently renamed CREDIOP – Credito per le Imprese e le Opere Pubbliche* S.p.A.) (to all of whose assets and liabilities, including liabilities under the Notes, San Paolo S.p.A. has succeeded by way of universal succession following a merger pursuant to Articles 2501 to 2504 of the Italian Civil Code), The Chase *Manhattan Bank, N.A. as fiscal agent and paying agent (the "Fiscal Agent") and Chase Manhattan Bank Luxembourg S.A.* as paying agent (together with the Fiscal Agent, the "Paying Agents").

EXTRAORDINARY RESOLUTION

"That this Meeting of the holders of the outstanding Italian Lire 50,000,000,000 11.30 per cent. Notes due 2001 (the "Notes"):

(i) hereby sanctions the conversion of the Notes into Notes issued by CREDIOP S.p.A. (the "Substituted Issuer") with effect from 31 January 1996, subject to the following conditions:

(a) a guarantee being issued by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") in favour of the holders of outstanding Notes and coupons in respect of the Substituted Issuer's obligations;

(b) consequential amendments relating to such conversion and such guarantee being made to the fiscal agency agreement dated 24 June 1991 relating to the Notes (the "Fiscal Agency Agreement") and the conditions of the Notes (the "Conditions"); and

(c) *the Substituted Issuer undertaking for the benefit of the holders of outstanding Notes and coupons to* comply with, perform and observe the terms of the Fiscal Agency Agreement and the Notes, including the Conditions, as so amended,

by means of a guarantee, supplemental fiscal agency agreement and deed poll in the form of the drafts produced to the Meeting and initialled, for the purposes of identification, by the Chairman, and that this Meeting sanctions the execution of the same, with such minor modifications as may be approved by the Chairman, by all relevant parties;

(ii) hereby sanctions every abrogation, modification, variation, compromise or arrangement in respect of the rights of the holders of the Notes and the holders of the coupons relating to the Notes against CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A., San Paolo S.p.A. or the Substituted Issuer involved in or resulting from the succession by San Paolo S.p.A. to the assets and liabilities of CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A. and/or the terms of paragraph (i) of this resolution; and

(iii) hereby authorises The Chase Manhattan Bank, N.A. (in accordance with its usual practice as fiscal agent) to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give *effect to paragraphs (i) and (ii) of this resolution."*

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for any adjourned Meeting which is set out in paragraph 4 of "Voting and Quorum" below.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, a draft supplemental fiscal agency agreement to amend the Fiscal Agency Agreement, a draft deed poll to be executed by CREDIOP S.p.A., a draft guarantee to be issued by San Paolo S.p.A. and draft legal opinions of Chiomenti e Associati and Field Fisher Waterhouse may be inspected at, and voting certificates may be obtained from, the specified office of the Fiscal Agent or the other Paying Agent given below.

VOTING AND QUORUM

1. If you wish to attend and vote at the Meeting in person, you must produce at the Meeting either your Note(s), or a valid voting certificate or certificates issued by the Fiscal Agent or the other Paying Agent relating to the Note(s) in respect of which you wish to vote.
2. If you do not wish to attend and vote at the Meeting in person, you may either deliver your Note(s) or voting certificate(s) to the person whom you wish to attend on your behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of the Fiscal Agent or the other Paying Agent given below) instructing the Fiscal Agent or the other Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with your instructions. In the case of Notes held through Cedel Bank société anonyme ("Cedel Bank") or the Euroclear System voting instructions are to be given in accordance with the present procedures of Cedel Bank or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System.
3. Note(s) may be deposited with the Fiscal Agent or the other Paying Agent or (to the satisfaction of the Fiscal Agent or such Paying Agent) be held to its order or under its control by a bank or other depositary for the purpose of obtaining voting certificates or giving voting instructions and requiring the Fiscal Agent or such Paying Agent to appoint proxies, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting). Note(s) so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time fixed for the Meeting (or, if applicable, any such adjournment), the surrender of the receipt(s) issued in respect of the relevant Note(s).
4. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being proxies for or representing in the aggregate a majority in principal amount of the Notes for the time being outstanding. If within half an hour from the time appointed for any such Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 7 days nor more than 42 days, and to such place as may be appointed by the Chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more persons present holding Notes or voting certificates or being proxies or representatives, whatever the principal amount of the Notes so held or represented by them.
5. Every question submitted to the Meeting will be decided by a show of hands unless a poll is duly demanded by the Chairman of the Meeting or the Issuer or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or a voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each Italian Lire 1,000,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which that person is a proxy or representative. In the case of an equality of votes the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a holder of Notes or as a holder of a voting certificate or as a proxy or representing a holder of Notes.
6. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75% of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the holders of the Notes, whether or not present at such Meeting, and upon all the holders of the coupons relating to such Notes.

FISCAL AGENT AND PAYING AGENT	PAYING AGENT
The Chase Manhattan Bank, N.A.	*Chase Manhattan Bank Luxembourg S.A.*
Woolgate House, Coleman Street, London EC2P 2HD	5 Rue Plaetis, L-2338 Luxembourg-Grund

By: The Chase Manhattan Bank, N.A.
as Fiscal Agent

17 June 1996

Istituto Bancario San Paolo di Torino S.p.A.

(as successor to CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A.)

Notice to the Holders *of the outstanding*

Italian Lire 120,000,000,000 Floating Rate Notes due 2002

NOTICE IS HEREBY GIVEN that a meeting of the holders of the above Notes (the "Noteholders") convened by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") will be held at the offices of Field Fisher Waterhouse at 41 Vine *Street, London EC3N 2AA on 11 July 1996 at 11.15am (London time) for the purpose of considering and, if thought fit,* passing the following resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Fiscal Agency Agreement dated 22 February 1991 (the "Fiscal Agency Agreement") made between Consorzio di *Credito per le Opere Pubbliche – CREDIOP (subsequently renamed CREDIOP – Credito per le Imprese e le Opere* Pubbliche S.p.A.) (to all of whose assets and liabilities, including liabilities under the Notes, San Paolo S.p.A. has succeeded by way of universal succession following a merger pursuant to Articles 2501 to 2504 of the Italian Civil Code), *The Chase Manhattan Bank, N.A. as fiscal agent and principal paying agent (the "Fiscal Agent") and Chase Manhattan* Bank Luxembourg S.A. as paying agent (together with the Fiscal Agent, the "Paying Agents").

EXTRAORDINARY RESOLUTION

"That this Meeting of the holders of the outstanding Italian Lire 120,000,000,000 Floating Rate Notes due 2002 (the "Notes"):

(i) hereby sanctions the conversion of the Notes into Notes issued by CREDIOP S.p.A. (the "Substituted Issuer") with effect from 31 January 1996, subject to the following conditions:

(a) *a guarantee being issued by Istituto Bancario San Paolo di Torino S.p.A. ("San Paolo S.p.A.") in favour of* the holders of outstanding Notes and coupons in respect of the Substituted Issuer's obligations;

(b) consequential amendments relating to such conversion and such guarantee being made to the fiscal *agency agreement dated 22 February 1991 relating to the Notes (the "Fiscal Agency Agreement"), the* agent bank agreement dated 22 February 1991 relating to the Notes (the "Agent Bank Agreement") and the terms and conditions of the Notes (the "Conditions"); and

(c) *the Substituted Issuer undertaking* for the benefit of the holders of outstanding Notes and coupons to comply with, perform and observe the terms of the Fiscal Agency Agreement, the Agent Bank Agreement and the Notes, including the Conditions, as so amended,

by means of a guarantee, supplemental fiscal agency agreement, supplemental agent bank agreement and deed poll in the form of the drafts produced to the Meeting and initialled, for the purposes of identification, by the Chairman, and that this Meeting sanctions the execution of the same, with such minor modifications as may be approved by the Chairman, by all relevant parties;

(ii) hereby sanctions every abrogation, modification, variation, compromise or arrangement in respect of the rights of the holders of the Notes and the holders of the coupons relating to the Notes against CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A., San Paolo S.p.A. or the Substituted Issuer involved in or resulting from the succession by San Paolo S.p.A. to the assets and liabilities of CREDIOP – Credito per le Imprese e le Opere Pubbliche S.p.A. and/or the terms of paragraph (i) of this resolution; and

(iii) hereby authorises The Chase Manhattan Bank, N.A. (in accordance with its usual practice as fiscal agent) to concur in and execute and do all such documents, acts and things as may be necessary to carry out and give *effect to paragraphs (i) and (ii) of this resolution."*

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for any adjourned Meeting which is set out in paragraph 4 of "Voting and Quorum" below.

AVAILABILITY OF DOCUMENTS

Copies of the Fiscal Agency Agreement, the Agent Bank Agreement, a draft supplemental fiscal agency agreement to amend the Fiscal Agency Agreement, a draft supplemental agent bank agreement to amend the Agent Bank Agreement, a draft deed poll to be executed by CREDIOP S.p.A., a draft guarantee to be issued by San Paolo S.p.A. and draft legal opinions of Chiomenti e Associati and Field Fisher Waterhouse may be inspected at, and voting certificates may be obtained from, the specified office of the Fiscal Agent or the other Paying Agent given below.

VOTING AND QUORUM

1. If you wish to attend and vote at the Meeting in person, you must produce at the Meeting either your Note(s), or a valid voting certificate or certificates issued by the Fiscal Agent or the other Paying Agent relating to the Note(s) in respect of which you wish to vote.
2. If you do not wish to attend and vote at the Meeting in person, you may either deliver your Note(s) or voting certificate(s) to the person whom you wish to attend on your behalf or give a voting instruction (on a voting instruction form obtainable from the specified office of the Fiscal Agent or the other Paying Agent given below) instructing the Fiscal Agent or the other Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with your instructions. In the case of Notes held through Cedel Bank société anonyme ("Cedel Bank") or the Euroclear System voting instructions are to be given in accordance with the present procedures of Cedel Bank or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System.
3. Note(s) may be deposited with the Fiscal Agent or the other Paying Agent or (to the satisfaction of the Fiscal Agent or such Paying Agent) be held to its order or under its control by a bank or other depositary for the purpose of obtaining voting certificates or giving voting instructions and requiring the Fiscal Agent or such Paying Agent to appoint proxies, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting). Note(s) so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time fixed for the Meeting (or, if applicable, any such adjournment), the surrender of the receipt(s) issued in respect of the relevant Note(s).
4. The quorum required at the Meeting is two or more persons present holding Notes or voting certificates or being proxies for or representing in the aggregate a majority in principal amount of the Notes for the time being outstanding. If within half an hour from the time appointed for any such Meeting a quorum is not present the Meeting shall stand adjourned for such period, not being less than 7 days nor more than 42 days, and to such place as may be appointed by the Chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more persons present holding Notes or voting certificates or being proxies or representatives, whatever the principal amount of the Notes so held or represented by them.
5. Every question submitted to the Meeting will be decided by a show of hands unless a poll is duly demanded by the Chairman of the Meeting or the Issuer or by one or more persons holding one or more Notes or voting certificates or being proxies or representatives and holding or representing in the aggregate not less than one fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or a voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each Italian Lire 1,000,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which that person is a proxy. In the case of an equality of votes the Chairman shall, both on a show of hands and on a poll, have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a holder of Notes or as a holder of a voting certificate or as a proxy or representing a holder of Notes.
6. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than 75% of the votes cast. If passed, the Extraordinary Resolution will be binding upon all the holders of the Notes, whether or not present at such Meeting, and upon all the holders of the coupons relating to such Notes.

FISCAL AGENT AND PRINCIPAL PAYING AGENT	PAYING AGENT
The Chase Manhattan Bank, N.A.	Chase Manhattan Bank Luxembourg S.A.
Woolgate House, Coleman Street, London EC2P 2HD	5 Rue Plaetis, L-2338 Luxembourg-Grund

By: The Chase Manhattan Bank, N.A.
as Fiscal Agent

17 June 1996

Ferfin changes its name to Compart

By Robert Graham in Rome

The last vestige of the Ferruzzi family's short-lived agro-industrial empire disappeared over the weekend with Ferruzzi Finanziaria (Ferfin), the financial holding company, adopting the new name of Compart.

Compart (Compagnia di Partecipazioni Assicurative ed Industriali) was a shelf company in the group briefly active from 1989 to 1991.

The disappearance of the Ferruzzi connection was part of a "radical shake-up" in the shape of the former Ferfin shareholders, according to Mr Luigi Lucchini, the Ferfin chairman who became the new head of Compart.

A small core of shareholders has been formed owning 6 per cent of the freshly baptised Compart, which controls 30 per cent of Montedison, the industrial holding company. This 'core' is led by Mr Lucchini, who owns 1.5 per cent of the stock and has won three seats on a new board.

Since the collapse of Ferfin in 1993 with over L30,000bn ($19.4bn) of debts, the Ferruzzi family interests have been progressively reduced as banks providing the rescue package have become the major shareholders. Before the weekend move, seven banks, headed by Mediobanca, the powerful Milan merchant bank, owned over 53 per cent of shares. The banks also exercised control through representatives on the five-man board.

The old Ferfin board has been enlarged to eight in the new Compart in recognition of the new core of small shareholders. At the same time, Mr Giorgio Rossi, chairman of the troubled investment company Gemina that sought an abortive merger with Ferfin last year, has left.

The new board members are Mr Ruggero Brunori, chief executive of Ferriera Valsabbia, an industrial group with a L300bn annual turnover; Mr Loris Fontana, a steel magnate; Mr Giuseppe Gazzoni Frascara, a Bologna industrialist and chairman of Bologna football club; and Mr Carlos Fitz-James Stuart y Martinez, son of the Duchess of Alba and representing the Generali insurance group. Only Mr Lucchini has revealed the size of his shareholding, but the other stakes in the core group are believed to be between 1 and 1.5 per cent.

"This is the embryo of a hard core of shareholders formed by people who not only have invested in shares but also have the credibility to resolve our company's image problems," said Mr Lucchini.

Last year Ferfin moved back into profit, recording a net surplus of L11bn against a 1994 loss of L996bn. Profits are expected to improve this year, especially after the divestment of the Il Messaggero group. This and the sale of its Telemontecarlo TV channel is expected to bring L356bn in income over the next three years.

Hollywood lingerie chain looks for support

By Christopher Parkes in Los Angeles

Frederick's of Hollywood has been put up for sale. The 200-outlet naughty undies chain, opened 60 years ago to fulfil the fantasies of returning second world war GIs, has drooped under pressure from silicone and subtler retailers.

The company which introduced Rising Star, the first push-up bra, to offer every woman the Betty Grable profile, is looking for a buyer for the 50.5 per cent of the stock held by the founding Mellinger family trust.

Other options being investigated by adviser Janney Montgomery Scott include a joint venture, recapitalisation, a share buy-back or asset sales.

Last Christmas was the worst on record, Mr George Townson, chief executive, said at the weekend.

Earnings are still falling, and recorded a decline in the current year's second quarter of more than 40 per cent to $1.2m on revenues of $45m. Full-year sales of $143m in 1995 yielded net income of just $2.7m.

Mr Townson, who was hired in 1985 to clean up the company's act – he threw out sex toys, painted the shops in pastel colours and shifted advertising from Penthouse to Vogue – said the trust holdings were worth some $18m at current stock market valuations.

However, the company could find no way of avoiding the effects of the silicon implant and the encroachments of mass market manufacturers and retailers led by The Limited's lingerie subsidiary, Victoria's Secret.

Wonderbra, a brand owned by Sara Lee, the US consumer products group, has attracted many imitators and, under the influence of names such as Calvin Klein, underwear has evolved into a fashion item.

There appears nowhere for Frederick's to turn with its crimson frillies except, perhaps, for the recently-opened lingerie museum at its main Purple Palace store on Hollywood Boulevard.

Normandy back with merger plan

By Nikki Tait in Sydney

Australia's Normandy Mining has again presented its own plans for a four-way merger a week after seeing off unwanted overtures from Newcrest Mining, the Australian gold producer. The merger would create a resources group with an estimated A$3bn (US$2.37bn) market capitalisation, ranking as the eighth largest gold producer worldwide.

Normandy is proposing a merger, via three separate share swaps, of its own interests and those of PosGold, Gold Mines of Kalgoorlie, and North Flinders Mines. Normandy owns 50.1 per cent of PosGold, which in turn holds 31 per cent of GMK and 49 per cent of North Flinders. All four companies are listed on the Australian Stock Exchange.

Normandy said the terms would be 157 Normandy shares for every 100 PosGold and 71 Normandy shares for every 100 GMK, unchanged from before. There would also be an offer of 425 Normandy shares for every 100 NFM, consistent with the original deal, but not including the original "Tanami option".

Normandy has previously claimed the four-way merger would simplify the group's structure and make it more appealing to investors.

Normandy, headed by Mr Robert Champion de Crespigny, first mooted the plan in November. It was close to receiving shareholder approvals earlier this year when Newcrest, a smaller gold-mining company, sought to join the merger.

Newcrest snapped up a 14.9 per cent stake in its would-be marriage partner, and a further 12.5 per cent in PosGold at a cost of around A$450m, and proceeded to block the original merger plan at shareholder meetings in March.

After negotiations with Normandy failed, Newcrest finally backed off a week ago, saying it would not block the original merger plan if it was represented. Newcrest is expected to dispose of its stakes.

● RTZ-CRA, the Anglo-Australian mining group, has referred its planned Kintyre uranium mining project to the Western Australian Environmental Protection Authority – kicking off the formal approval process necessary before mining starts.

RTZ-CRA becomes the second company to actively seek approval for a new uranium mine in Australia since the change of federal government in March. New mines had been barred for over a decade, due to the Labor governments' "three mines policy".

After the conservative Liberal-National coalition government won office this year, this policy ceased to apply. North, the Melbourne-based group, is already pursuing plans for a new mine at Jabiluka in the Northern Territory.

Carlsberg first half boosted by jump in financial income

By Hilary Barnes in Copenhagen

Strong growth in net financial income from DKr87m to DKr211m helped lift pre-tax profits at Carlsberg, the brewery group, from DKr607m to DKr741m ($126m) for its first half to March 31. The results were struck on sales up 8 per cent to from DKr7.87bn to DKr8.53bn.

Carlsberg attributed a third of the advance in sales to acquisitions, adding that a 10 per cent increase in sales of its brands in the UK, where it has a 50 per cent share in Carlsberg Tetley, also contributed.

Operating profits moved up 2 per cent from DKr520m to DKr530m, but the margin on sales slipped to 6.2 per cent, the weakest performance for five years.

The results were influenced by heavy spending on the relocation of the Tuborg brand brewing operation in Copenhagen, as well as heavy international spending on advertising and sponsorship contracts with a view to strengthening the Carlsberg and Tuborg names.

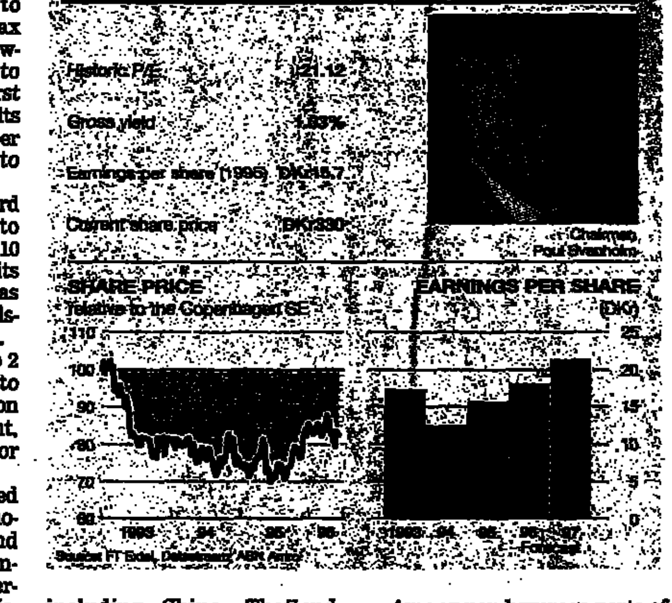
Spending on marketing was especially high in Asia, a market which Carlsberg entered before most of its international rivals by establishing breweries in Hong Kong and Malaysia in the 1970s.

The company is expanding in most of the big Asia markets, including China, Thailand, Vietnam and India, and expects the region to account for an ever-increasing share of group sales.

New international projects were launched in the half year in China, Croatia, Poland and Romania. At the same time, however, Carlsberg is meeting tough competition in Asia from other international brewery groups which have come into the market more recently.

Among non-beverage parts of the group, Royal Copenhagen, the industrial arts subsidiary, put in an improved performance.

The group maintained its earlier forecast that operating profits for the year would be at "almost the same level" as last year's DKr1.2bn, assuming no adverse changes in exchange rates. Net financial income for the full year will be modestly ahead of last year's DKr208m.



NEWS DIGEST

Hollinger to raise $750m of finance

Hollinger International, a US-based holding company in the publishing group controlled by Mr Conrad Black, has outlined plans to raise about US$750m in debt and equity to finance a series of recent deals. The issues aim to replace short-term bank debt incurred in the buy-out of minority shareholders in the UK Telegraph group and the expansion of Hollinger's stake in Canada's Southam newspaper chain from 21 per cent to 41 per cent. Mr Black also plans to raise Hollinger's stake in Southam in the near future to at least a clear majority.

Hollinger International, 66.5 per cent-held by Toronto-based Hollinger Inc, plans a public offer of 13m Class A common shares, plus 1.95m shares at the underwriters' option. The offer, due to be launched in the third quarter, would be worth $175m at the price at which Hollinger shares closed on the New York Stock Exchange last Friday. The underwriting group will be led by Merrill Lynch, Bear Stearns, and Donaldson Lufkin and Jenrette. Part of the issue will be offered to international investors by CIBC Wood Gundy and Toronto Dominion Securities.

Hollinger also plans to raise $250m through securities convertible into common shares in 1999, and to issue $825m of debt securities after the equity offering, subject to market conditions. The share issues will dilute the parent company's equity stake in Hollinger International to 55.2 per cent, but Hollinger Inc will retain an 82.3 per cent voting interest.

Bernard Simon, Toronto

Gengold lifts reserves

Gengold, the gold mining subsidiary of Gencor, the South African mining multinational, has increased its available gold reserves by an estimated 300 tons by merging its Kinross mine with its other gold interests in the southern Orange Free State. Mr Tom Dale, managing director, said Kinross would acquire the mining operations of Windelhaak, Leslie and Bracken mines from July 1, when they would be delisted from the Johannesburg and London stock exchanges. The merged operation, to be known as Evander Gold Mines, would acquire 14,107 hectares and 5,550 hectares of virgin mineral rights from Gencor and Randex respectively.

Gengold will cancel existing management contracts with Windelhaak, Leslie and Kinross mines. But analysts doubted the move would hasten restructuring at other South African mining finance houses, which have been criticised for their reluctance to abandon management contracts with individual gold mines. Mr Tom Dale, managing director, said the merger was "a further step towards Gengold's strategic vision of creating a single, focused gold investment vehicle". It follows the sale of four marginal mines to Randgold last year.

Mark Ashurst, Cape Town

Mixed results on Fokker claims

Receivers in charge of Fokker, the bankrupt Dutch aircraft maker, believe they will be able to settle in full claims on the company by government agencies and secured creditors. Ordinary creditors were likely to receive a partial settlement, they said on Friday, but holders of subordinated bonds and shares were unlikely to receive any payment.

Provisional accounts submitted by the receivers to the Amsterdam district court showed that Fokker suffered a net loss of Fl 1.3bn ($762m) in 1995 on sales of Fl 3.7bn. Fokker was declared bankrupt on March 15 after heavy cumulative losses forced majority shareholder Daimler Benz of Germany to cut off financial support.

Reuter, Amsterdam

Philips buys Polish light plant

Philips, the Dutch electronics group, is to buy Polam Pabianice, a Polish light bulb factory, in a landmark deal with the country's Progress Investment Fund, jointly-managed by Raiffeisen of Austria and WS Atkins, the UK consultancy. The deal with Progress, one of the 15 funds established last year under Poland's Mass Privatisation Programme, is the first transaction where a fund has sold a controlling share in one of its companies to a foreign investor.

Philips will pay $10m for a 60 per cent share in Pabianice, giving the Dutch group local production in every sector of the lighting business in Poland. Philips, which began its purchases in Poland in 1991 with the Pila light bulb plant, has invested over $250m on buying and modernising six plants. It intends to spend a further $70m on investments locally in the near future. Pabianice, which reported a 5m zlotys ($1.8m) net profit on sales of 65.2m zlotys last year, specialises in bulbs for the car industry. General Electric of the US and Osram from Germany were the other lighting groups bidding for the plant.

Christopher Bobinski, Warsaw

Fertiliser boosts Tata Chemicals

A strong performance in the fertiliser business helped Tata Chemicals, the Indian chemical, fertiliser and cement group, offset a sharp fall in income from investment. The group lifted net profit 38 per cent to Rs3.95bn ($113m) for the year ended March 31 from Rs2.86bn a year earlier. Sales rose 96 per cent to Rs15.34bn from Rs7.84bn. The company said this reflected the benefits of the first full year of operation of its gas-based nitrogenous fertiliser factory at Babrala in Uttar Pradesh with capacity of 2,250 tonnes a day.

Interest costs rose 143.7 per cent to Rs2.36bn and depreciation claimed Rs1.05bn, against Rs460m last time, because of the fertiliser project. The company plans to maintain the annual dividend of Rs6.5 a share. But the dividend is to be paid on capital increased to Rs1.81bn by a bonus issue of three new shares for every five held.

Tata Chemicals is raising the capacity of its soda ash plant from 700,000 tonnes to 1m tonnes a year. The Rs4.5bn move will make the company the world's largest producer of soda ash. It is also planning to double the capacity of its fertiliser factory with an investment of Rs13bn.

Kunal Bose, Calcutta

■ Hindustan Copper, India's only copper group, increased after-tax profits from Rs723m to a record Rs763m in the year to end-March. Earnings per share rose from Rs2.37 to Rs2.50.

Kunal Bose

Second Brazilian rail concession sold

By Jonathan Wheatley in São Paulo

The second of six stages of the privatisation of Brazil's federal rail network has been completed with the sale of a 30-year concession to manage 7,000km of track in the east of Brazil. The buyer is a consortium led by government-controlled mining group Companhia Vale do Rio Doce (CVRD) and including US railways operator Railtex International.

The consortium was the only bidder at the auction on the Rio de Janeiro stock exchange and paid the minimum price of R$316.9m (US$316.87m).

Its other members are Brazilian steel company CSN; industrial group MPE; Varbra and Ralph Partners, two investment groups operated by the local bank Garantia; Judori, a São Paulo investment group; and Interférrea, a group of Brazilian investors in transport.

CVRD and Railtex originally led separate consortia but decided last week to join forces. CVRD was reportedly prepared to pay much more than the minimum price to secure the concession.

"This part of the network is worth a lot to CVRD because of its connection with our own railway," said Mr José Carlos Marreco, CVRD's transport director. "We are very happy to have bought it for the minimum price."

The concession covers an area running from Rio de Janeiro in the south-east to the north-eastern state of Sergipe and inland to the capital, Brasília. Connection is possible with CVRD's own railway, used mainly to carry iron ore from the state of Minas Gerais to its port at Vitória.

Mr Marreco expects freight on the concession to rise from 16m to 30m tonnes a year by the end of the decade, and sales from R$190m to R$300m.

Under the terms of the sale, the consortium must invest R$900m over the 30 years of the concession, including R$300m in the first six years.

Mr Marreco said investments might exceed this minimum. Much of the network's rolling stock is in poor condition, with 126 of the concession's 394 locomotives out of service.

The government hopes to sell four more rail concessions this year. The first, in western Brazil, has already been sold to a consortium led by the Noel Group of the US for R$62.36m.

FINANCIAL TIMES

EUROPEAN RESULTS ANALYSIS

A tour of European industry in 20 sectors

FT writers and statisticians profile results for 1995 in a review by Paul Abrahams and Richard Brown

This comprehensive analysis of European company results for 1995 lists the top companies in 20 industrial sectors.

Analysts and investors are increasingly adopting a pan-European approach to spot valuation anomalies between companies in similar sectors in different countries. Such comparisons are not infallible: there may be good reasons why domestic risks outweigh apparent mis-pricing of some shares. But the exercise can be interesting and rewarding.

The review contains only publicly-quoted companies, not those in state and private hands. These have been ranked by turnover or net revenues. The only exceptions are banking, insurance and property companies which have been ranked according to their market capitalisations.

The decision to list groups by turnover, when meaningful, rather than market capitalisation, is to avoid excessive weight being given to UK companies, which often have high valuations compared with their continental counterparts. The disadvantage is that fast-growing companies, such as those active in biotechnology - the subject of much interest recently thanks to the high valuations commanded by some shares in the sector - are not included.

When possible, audited data, processed by FT Extel, have been used. But some groups have yet to publish their annual reports, so preliminary figures have been included, normally obtained from the statistical services of Datastream, Reuters or AFX News. The currency conversions and market capitalisations used in the survey were calculated in May. The figures are for the 1995 financial year.

The sectors published have been worked out on the basis of the FT-S&P Actuaries World Indices codes. However, defining a sector can prove to be a problematic exercise . Some of the sectors in this review, such as paper and forestry, are straightforward and universally recognised. Others, such as engineering, have proved more difficult to compile and have been modified to create more meaningful groupings.

A few sectors, such as steel, have not been calculated because so few companies are quoted. Nor have conglomerates been included - the differences between such groups are often greater than the similarities.

Companies formed by mergers are represented if the deal was completed before the end of 1995. Here, the combined pro-forma results are given.

Further analyses will be published at six monthly intervals, covering half-year and full-year figures.

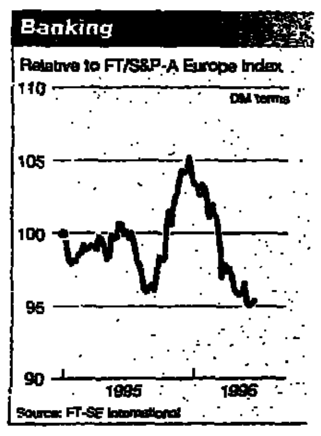
■ **Banks** • by George Graham

Germany reaps trading rewards

If indications from shareholders' meetings are anything to go by, 1996 has started with a bang for many of the largest continental European banks.

Commerzbank reported "einen guten Start" with operating income before provisions up 58 per cent to DM874m ($571m) in the first quarter, while Deutsche Bank announced a 32 per cent increase in after-tax profits in the first four months to DM770m. Dresdner also more than doubled first quarter operating profits.

Indications from the Swiss banks are not so precise, but all three produced good results in the first three months of the year; one of the best to date came from CS Holding.



But investors have heeded the warning from Mr Jurgen Sarrazin, Dresdner's chairman, that first quarter results benefited from "a following wind."

The strong performance was heavily influenced by buoyant trading revenues across a range of markets, a more volatile if often more lucrative source of earnings than traditional lending. Commission income is also showing strength, and this, too, can be volatile.

It will take more than this, however, to dispel anxiety about the high levels of competition that prevail in overbanked continental Europe.

The big German banks have been making encouraging inroads into the market share of the savings and co-operative banks, thanks to new distribution channels such as telephone banking. They have also taken steps to improve their financial transparency.

Other markets such as France and Switzerland, however, continue to demonstrate the sort of irrational pricing that seems likely to keep returns on equity down in the single digits for years to come. Société Générale and Crédit Commercial de France remain most analysts' choices on quality grounds, but both have stood out for so long that they are already trading on more than 11 times 1996 earnings.

UK banks, meanwhile, produced record profits last year and are expected to continue to do so. But with capital accumulating and low inflation continuing to depress loan growth, returns on equity are likely to decline from now on.

European banks - top 20 by market capitalisation

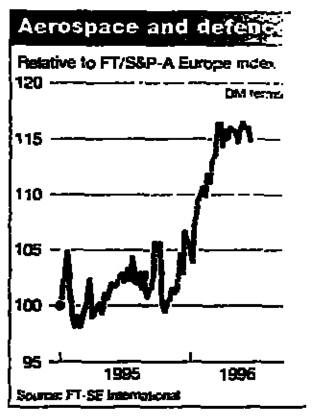
Company	Listing	Market cap ($bn)	Net income ($m)
HSBC	United Kingdom	38.32	3,717.62
UBS	Switzerland	25.28	1,320.15
LLOYDS TSB	United Kingdom	24.52	1,706.30
DEUTSCHE BANK	Germany	22.74	1,333.93
ING	Netherlands	21.96	1,533.50
BARCLAYS	United Kingdom	18.38	1,864.85
NATIONAL WESTMINSTER	United Kingdom	16.84	1,833.14
ABN AMRO HOLDING	Netherlands	16.37	1,524.55
CS HOLDING	Switzerland	15.81	1,119.32
SBC	Switzerland	13.49	830.91
DRESDNER BANK	Germany	11.41	786.24
ABBEY NATIONAL	United Kingdom	11.35	942.24
SOCIETE GENERALE	France	9.34	734.23
STANDARD CHARTERED	United Kingdom	9.20	682.52
BANCO BILBAO VIZCAYA	Spain	8.49	653.00
COMMERZBANK	Germany	8.44	637.19
BANCO SANTANDER	Spain	7.30	586.01
PARIBAS	France	7.24	-769.04
BNP	France	7.13	343.16
BAYERISCHE VEREINSBANK	Germany	6.56	389.17

■ **Aerospace** • by Bernard Gray

Politics grabs hold of the controls

Turbulent is the only word to describe the state of the European aerospace and defence industries. With defence spending in western Europe having fallen by almost a third in real terms since 1990, and with France, previously the sole exception, now cutting back, defence companies have had to retrench. The simultaneous recession experienced by airlines has hurt the commercial side of the business too, particularly the regional aircraft makers, as the collapse of the Dutch aircraft manufacturer Fokker graphically demonstrated.

The pressure for restructuring is thus intense, yet political barriers continue to prevent effective consolidation of the industry. British Aerospace and Daimler-Benz have talked – inconclusively so far – about merging their aerospace interests, and discussions about pooling the Thomson-CSF defence electronics company with GEC's defence arm were aborted by the French government.



Airbus is likely to be converted into a conventional company, but it is far from clear how quickly that will lead to a unified management.

In engines, Rolls-Royce has tentative links to BMW, but is still fundamentally divided from the French engine maker Snecma. Progress has only been made in smaller more tentative steps, with the merger of BAe and Matra's missile businesses and the formation of the AI(R) regional aircraft joint venture.

While Europe continues its glacial progress towards a rationalised industry, individual companies have been forced back on to their own efforts to improve their financial performance. The degree to which each company has boosted its profitability and share price has depended on how exposed it is to the chill winds of the market.

Furthest down the track of cost cutting are the British companies, with BAe, GEC and Rolls all reducing head counts and improving profitability despite poor market conditions. Daimler-Benz Aerospace is behind them, but is now wading through the red ink of cutting its cost base and crystallising its losses in Fokker. French companies, notably Giat and Aerospatiale, have barely begun to cut costs.

Those who have tried self-help have seen the benefit in their share prices, but cutting the cost base is only a medium term palliative. Radical restructuring of a kind that has so far eluded the European industry will be needed to give the companies, and their shareholders, a long term future.

European aerospace groups - top 3 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
BRITISH AEROSPACE	United Kingdom	8.67	208.38	5.66
ROLLS ROYCE	United Kingdom	5.43	214.42	5.04
SAGEM	France	2.90	105.58	1.66

■ **Construction** • by Andrew Taylor

Damp weather depresses output

"The weather is awful – wish we weren't here." A postcard from the European construction and building materials companies, reflecting on trading conditions in the the first six months of this year, would offer little cheer to investors.

The region's construction markets, already in the doldrums with public and private sector investment squeezed, have been further dented by harsh winter weather which halted much building work.

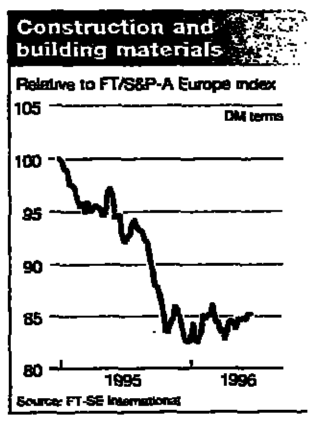
Poor conditions were not limited to northern Europe. Even Spain and Portugal suffered unusually wet weather at the start of this year. Building material producers and construction companies as a result have warned of some fairly steep first half profits falls. Declines will have been accentuated by comparison with a relatively strong first six months of 1995.

Climatic problems, however, should only affect the short term. Output, stymied in the winter, should increase as weather improves and contractors recover lost time. Already French cement sales, which fell nearly 10 per cent in the first three months of this year have started recovering.

Of more concern is the medium term European economic and business climate. This looks like continuing dull over the next few years. And increases in construction output and building material prices are likely to lag rises in GDP and general inflation.

The drive by governments to meet the convergence criteria for European monetary union will continue to inhibit public spending. Consumer confidence seems likely to remain weak as private sector businesses restructure.

German construction, accounting for 30 per cent of all western European building and civil engineering output, is forecast to drop 2.4 per cent this year and 3.1 per cent in 1997. Falls of 1-3 per cent are forecast this year for France,



the UK, the Netherlands, Austria and Switzerland.

Share prices of eleven of the sectors' 16 largest companies by turnover underperformed their domestic stock markets by more than 10 per cent in the past 12 months.

Stocks with the best recovery prospects are building material companies with large operations outside Europe. Holderbank, based in Switzerland but with large US interests, remains the only buy out of some 30 European building material companies followed by Mr Andrew Melrose, an analyst at Paribas.

European construction/materials groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
BOUYGUES	France	14.10	-557.83	2.32
SAINT GOBAIN	France	13.52	809.82	10.52
HOLZMANN	Germany	9.12	-234.31	1.46
HOLDERBANK	Switzerland	8.61	502.53	3.93
LAFARGE	France	6.39	452.04	6.11
RMC	United Kingdom	6.22	267.68	3.94
WOLSELEY	United Kingdom	5.71	246.99	3.91
SKANSKA	Sweden	5.64	252.70	3.78
BILFINGER&BERGER BAU	Germany	5.58	68.67	1.47
POLIET	France	4.36	144.65	2.82

■ **Transport** • by Michael Skapinker

Industry flies into a cloud bank

The US airline industry has been producing profit performances far exceeding analysts' expectations. Europe presents a far cloudier picture. Not all carriers are benefiting from the increase in European travel. For example, Scandinavian Airlines System saw first quarter operating profits fall from SKr529m ($78m) to SKr176m. And Swissair's core airline business lost SFr200m ($158m) last year.

In contrast, Europe's most powerful carriers, Lufthansa of Germany and British Airways, did better. Lufthansa lifted earnings 3 per cent in 1995 to DM756m ($493m). BA became the world's biggest airline profit earner, with 1995 pre-tax results of £585m, up 29.4 per cent.

The companies' profits have been reflected in share performance. BA and Lufthansa's share prices have risen 21 per cent and 24 per cent in the first five months of this year. KLM was a relative laggard with a share price rise of 9 per cent. But Swissair's restructuring plan was rewarded with a 46 per cent share price rise.

The underlying message for investors, however, came from the two top performers. Both BA and Lufthansa said they would have to cut costs sharply over the next few years. BA said it would have to find £1bn over three years in cuts and revenue enhancements. Lufthansa said it would

BA's 1995 profits rose steeply

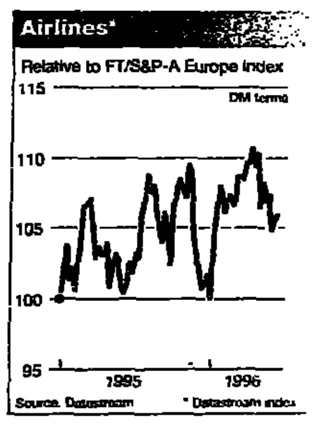
have to cut costs by more than DM1bn over five years.

The two carriers know that the best time to prepare for the next aviation downturn is when things are going relatively well. Even if the current upturn in the airline cycle continues for a few more years, the long-term outlook for all airlines is for a fall in yields.

Cheap holiday tickets are selling more quickly than business fares. Long-haul travel is growing faster than higher-yielding short-haul flights.

BA is a consistently well-managed company, which should prosper further if its proposed partnership arrangement with American Airlines is approved. Lufthansa's link with United Airlines of the US should help it offset some of Germany's current economic weakness.

Europe's airlines, private and state-owned, recorded a cumulative profit of $1bn last year. The current boom will have to be an extraordinarily long one, however, if they are to wipe out losses of $7.5bn accumulated in the previous



five years.

While airline shares are likely to benefit from the current overall improvement in profitability, BA and Lufthansa's cost-cutting is a warning that in the aviation industry a bumpy landing is never far away.

European transport groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
LUFTHANSA	Germany	13.02	960.67	6.03
BRITISH AIRWAYS	United Kingdom	11.71	714.20	7.76
P&O	United Kingdom	9.92	356.36	4.77
SWISSAIR	Switzerland	5.60	-117.44	2.24
KLM	Netherlands	5.35	273.45	3.05
SAS	Denmark	5.21	382.28	1.56
NFC	United Kingdom	3.32	20.69	1.70
HAPAG LLOYD	Germany	2.83	42.31	1.72
BAA	United Kingdom	1.75	420.84	8.32
EUROTUNNEL	United Kingdom	0.45	-1,396.55	1.19

■ **Drink** • by Roderick Oram

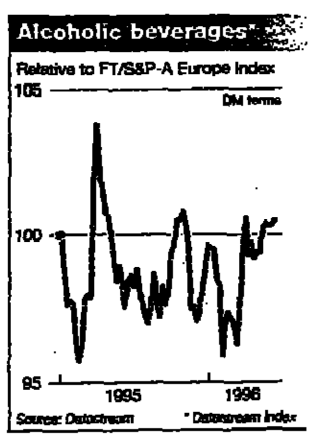
Dutch refresher course

Two powerful determinants of profitability are kicking in for the European drinks sector. Brewers are consolidating volumes, and prices, stagnant for the past three or four years, are reviving.

Some companies are already notching up impressive sets of performance statistics. Heineken of the Netherlands lifted 1995 net profits by 10 per cent while constant currency operating profits were up 25 per cent. Its strategy is a model to all brewers: its production costs are remarkably low while its advertising spend is unusually high, bringing benefits of brand image and high selling prices. It has carried the secong leg of its strategy forward in France and Italy in recent months, buying local brewers to enhance its market share.

In contrast Germany's 1,000 brewers are suffering acutely from high costs, falling sales and parochial brands. Big names such as Lowenbrau have recently reported sharp profit falls while a couple of notable regional brewers have been declared bankrupt.

The UK is crying out for consolidation too. The next big deal expected is Bass's purchase of Carlsberg-Tetley, jointly owned by the Danish brewer and Allied Domecq. But big competition issues stand in the way of creating the UK's largest brewer, so the deal is not guaranteed. For the first few years of a merger, cost savings and smaller discounts would boost profits. Higher prices and margins would be less likely given the competition from remaining brewers.



Pricing is beginning to firm, however, for distillers.

French drinks producers are meanwhile suffering from the high franc and consumer resistance to price increases, particularly in China. Nobody is forecasting imminent consolidation of distillers but the massive cost savings would give it a powerful logic.

For the sector as a whole, true prosperity depends on brewers and distillers taking leaves out of each others' books: distillers by consolidating and brewers by increasing prices. This would have an electric effect on share prices. But such nirvana lies at least a couple of years away.

European drinks groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
ALLIED DOMECQ	United Kingdom	13.48	898.45	7.86
GRAND METROPOLITAN	United Kingdom	12.12	573.80	14.13
GUINNESS	United Kingdom	7.07	778.47	13.96
BASS	United Kingdom	6.86	386.56	10.52
LVMH	France	5.72	309.70	20.95
HEINEKEN	Netherlands	5.27	191.57	19.54
WHITBREAD	United Kingdom	3.73	212.17	5.44
PERNOD RICARD	France	3.07	168.85	3.70
SCOTTISH & NEWCASTLE	United Kingdom	3.05	107.07	8.17
CARLSBERG	Denmark	2.87	117.25	1.89

■ **Chemicals** • by Jenny Luesby

Commodities are incommodious

Investing in European chemicals will require a clear head and some determined strategy this year.

The sector promises little until a regional recovery takes hold – most chemical producers will be delighted if they can even match last year's profits.

Companies with a greater emphasis on pharmaceuticals and niche speciality chemicals, such as Bayer, Akzo Nobel and Hoechst, will fare better than commodity-loaded companies, such as DSM, BASF, Solvay and ICI.

But the evidence so far suggests that the surge in chemical demand and prices early last year was no more than a bubble.

The stocks built up then, by chemical traders and manufacturers, have taken months to run down. And, without speculative buying, demand is proving too weak to generate a substantial price recovery.

Producers have managed to negotiate small price rises, following a 50 per cent slide in the second half of last year, but they acknowledge it will be hard to hang on to these gains.

First quarter results support this gloomy picture, with Hoechst reporting a 22 per cent decline in basic chemical sales, and a 20 per cent decline in speciality chemicals. BASF, similarly, reported a 15.5 per cent slide in fibres and plastics sales, and an 8.3 per cent drop in chemicals.

However, there are other reasons for investing in chemicals. The industry's relentless nip-and-tuck restructuring continues to deliver a series of minor upgrades. Typical is Bayer, which reported a 4 per cent increase in sales, and a 14 per cent rise in pre-tax profits in the first quarter, due almost entirely to acquisitions.

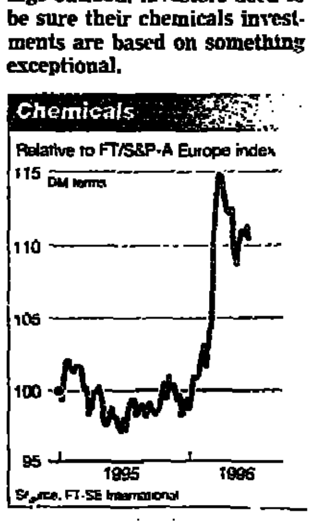
Investors are also positioning themselves for further delinking of chemical and pharmaceutical businesses. Hoechst is the prime candidate, having spelt out its ultimate aim of separating the two, but the timing is uncertain, with the company still working on a possible legal framework.

Another teaser is how chemical companies might use the cash piles accumulated last year. BASF has promised a buyback as soon as German law permits. Bayer says it is interested too.

But with such a poor earnings outlook, investors need to be sure their chemicals investments are based on something exceptional.

European chemicals groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
HOECHST	Germany	33.93	1,111.37	18.39
BASF	Germany	30.06	2,684.57	15.96
BAYER	Germany	28.99	2,721.51	22.37
RHONE POULENC	France	16.31	410.49	7.64
ICI	United Kingdom	15.51	807.85	9.56
MONTEDISON	Italy	14.98	686.13	3.29
AKZO NOBEL	Netherlands	12.50	764.48	8.08
DEGUSSA	Germany	9.01	161.24	2.96
HENKEL	Germany	9.24	317.62	2.73
SOLVAY	Belgium	6.61	392.29	4.82



EUROPEAN RESULTS ANALYSIS

■ **Food processing** • by Simon Davies

Crash diet brings health

There are glimmers of recovery for Europe's long-besieged food manufacturers. In the low inflationary environment of the mid-1990s food manufacturers rather than retailers have suffered the margin cuts demanded by recession-scarred consumers. Their response has been heavy restructuring, but up to now cost benefits have gone straight back to the consumer. Hence, the dramatic underperformance of industry giants Danone, Nestlé and Unilever over the past three years.

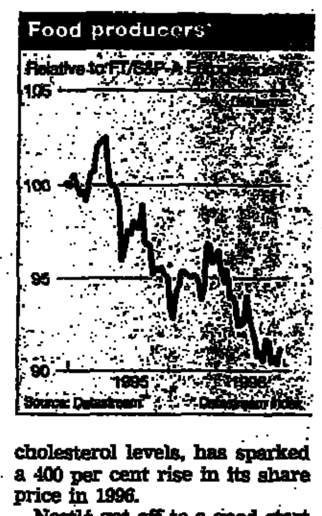
All three recorded lower earnings in 1995, though the evidence for the first quarter of 1996 has been unanimously positive.

The macro-economic environment remains mixed. There has been a pick-up in retail spending in the UK, with inflation creeping back into the supermarket. But the recovery in consumer confidence in France has proved short-lived and Germany and Italy remain depressed. The threat from private label competition is easing, and there has been some reduction in packaging and raw material costs. Nonetheless, exposure to emerging markets has been key to growing sales.

The biggest winners will be companies that pare costs to the bone and use research and development to produce new, higher value-added products to expand both sales and margins. Raisio, a Finnish company, exemplifies this approach. Its Benecol margarine, which appears to reduce cholesterol levels, has sparked a 400 per cent rise in its share price in 1996.

Nestlé got off to a good start this year, helped by a fall in both the Swiss franc and coffee bean prices. Unilever has stronger exposure to fast-growing Asian economies, but has been hampered by a portfolio of more mature businesses, particularly margarines, and the legacy of its Persil Power fiasco.

However, three years of heavy restructuring are bearing fruit. Danone has been slowest to respond to the harsher environment. But while Mr Franck Riboud's promotion to chairman in succession to his father Antoine smacks of nepotism, and though his push for restructuring, internationalisation and increased R&D is hardly original, it represents a welcome change from the old complacency.



European food processing groups - top 20 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
UNILEVER	Netherlands/UK	47.59	2,224.23	38.85
NESTLE	Switzerland	45.13	2,331.31	43.75
DANONE	France	15.28	409.72	10.60
ERIDANIA BEGHIN SAY	France	9.77	293.54	4.19
DALGETY	United Kingdom	7.41	77.48	1.60
ASSOC BRITISH FOODS	United Kingdom	7.39	377.50	5.19
CADBURY SCHWEPPES	United Kingdom	7.21	466.59	7.43
TATE & LYLE	United Kingdom	6.81	299.43	3.12
SAINT LOUIS	France	6.78	182.16	2.29
HILLSDOWN HOLDINGS	United Kingdom	5.21	-88.86	1.92
UNITED BISCUITS	United Kingdom	4.53	-190.56	1.84
SUDZUCKER	Germany	4.07	95.52	1.68
NORTHERN FOODS	United Kingdom	2.98	0.91	1.57
UNIGATE	United Kingdom	2.85	70.22	1.47
BOLS WESSANEN	Netherlands	2.69	118.08	1.61
SME	Italy	2.50	2,500.85	0.51
DANISCO	Denmark	2.39	168.70	2.73
CSM	Netherlands	1.58	101.21	1.61
FROMAGERIES BEL	France	1.55	1,546.55	1.38
NUTRICIA	Netherlands	1.12	87.10	2.49

■ **Engineering** • by Tim Burt

Eastern expansion is rewarded

The outlook for the European engineering industry is far brighter than commonly supposed. The gloom has been due to the weak economic conditions across much of the continent, and high labour costs, particularly in Germany. But most of the top European engineering companies are globalising fast, expanding in particular into eastern Asia.

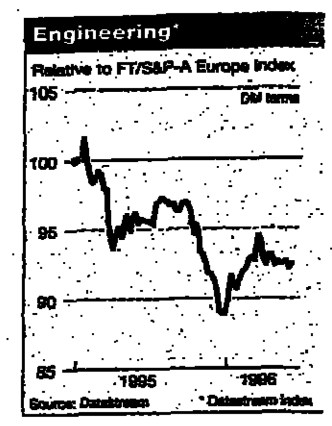
The future for many of these businesses will depend to what degree they can leverage their often high level of technical and marketing skills into the countries with the highest growth prospects. The omens are reasonably positive. Sandvik of Sweden and Switzerland's Sulzer – both with relatively unpromising home markets – have grown impressively in recent years in the far east, in the respective areas of specialised tooling products and pumps.

Mannesmann, often viewed as a typically lumbering German giant, is also targeting marketing resources to the "tiger economies" of Asia, particularly to boost sales of its highly regarded machines for processing plastics products.

The leading UK engineering companies, many of which have a strongly international perspective, also look in a better position for some years, for instance Siebe in electronic controls and TI in mechanical seals for processing equipment.

Potential problems include the state of the European automotive industry, which buys a large chunk of the engineering sector's output and where production is likely to stabilise in the next few years, and also the unremitting cost pressures to which most engineering companies are being subjected due to tougher competition.

The expanding markets for projects linked to pollution control should give strong impetus to companies involved in the manufacture of environmental equipment. This could augur well for companies such as Linde of Germany which is looking for big new international businesses to complement its four main areas of materials handling, plant construction, industrial gases and refrigeration technology.



European engineering groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
[illegible]	[illegible]	25.12	481.06	5.63
[illegible]	[illegible]	20.94	342.18	12.87
BTR	United Kingdom	14.78	1,449.60	18.22
MAN	Germany	11.94	164.36	2.85
[illegible]	[illegible]	11.33	[illegible]	2.49
[illegible]	[illegible]	5.38	298.02	1.47
LINDE	Germany	5.32	206.99	5.15
KVAERNER	Norway	4.49	266.16	1.26
[illegible]	[illegible]	3.47	71.60	1.54
[illegible]	[illegible]	[illegible]	282.97	5.06

■ **Food retailing** • by Christopher Brown-Humes

France's foreign legion of outlets

The best European food retailers have been able to keep profits rising in recent years despite mature domestic markets, low inflation and depressed consumer spending. They have relied on technology-driven cost-cutting to create huge inventory and stock management efficiencies.

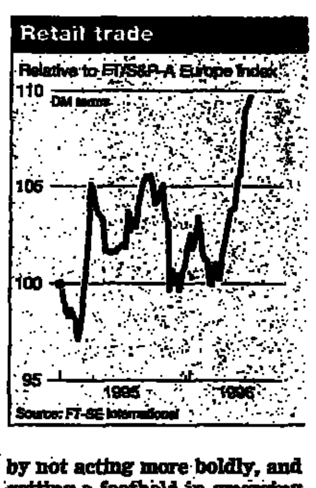
Although this has been a common strategy across the continent, the valuations of the big European food retail groups vary sharply. While the UK supermarkets trade at a discount to the market – albeit at less than two years ago – France's Carrefour and Promodes, and Ahold of the Netherlands are valued at multiples well above their respective markets.

Partly this is because the continentals are felt to have secured their home markets in a way their UK counterparts have not. The UK groups have also suffered because of the impact of price wars on margins.

But one thing the continentals are also getting credit for is the success of their overseas expansion strategies. For example, Carrefour, France's leading grocery retailer, now has more outlets in countries outside France than inside it, with an overseas drive into countries as far away as China and Taiwan. Promodes, the country's second largest grocery group, is active in Spain, Germany, Greece, Italy, Turkey, Morocco and Mauritius. The leading UK groups, by contrast, have generally been less adventurous, although Sainsbury is active in the US and Tesco has made a push into eastern Europe. Argyll, owner of Safeway, and Asda are focused purely on the UK market.

Given that UK supermarket groups are world-beaters when it comes to logistic and supply-chain efficiencies, it could be that they are missing a trick by not acting more boldly, and getting a foothold in emerging markets now. That would certainly be Carrefour's view.

The IT revolution in retailing will deliver further cost benefits in the next few years. If consumer spending also picks up as Europe emerges from its downturn, there should be stronger-than-expected momentum behind profits and share prices in the European food retailing sector in coming months.



European food retailing groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
CARREFOUR	France	27.82	680.17	13.13
PROMODES	France	18.24	192.74	4.78
KARSTADT	Germany	17.51	123.01	3.09
ASKO	Germany	17.38	146.44	2.40
J SAINSBURY	United Kingdom	17.16	908.81	10.47
AHOLD	Netherlands	16.88	238.27	6.22
TESCO	United Kingdom	15.25	573.80	9.11
PINAULT PRINTEMPS	France	14.97	290.46	6.81
KAUFHOF	Germany	13.81	89.28	2.57
CASINO	France	12.38	121.76	2.41

■ **IT** • by Paul Taylor

Subscriber surge brings results

A strong semi-conductor market, the growth of networking and the surge of subscribers to digital cellular mobile telecommunications networks helped most European information technology companies perform strongly last year.

Siemens, the German electronics group, in particular, benefited from strong semi-conductor sales and the gains made by its computer subsidiary, Siemens Nixdorf, in the personal computer market.

As with Philips and Thomson CSF, Europe's other two semi-conductor manufacturers, Siemens' strong position in the applications specific integrated circuit market should provide a cushion against the recent collapse of dynamic random access memory chip prices, which has seen D-Ram prices drop by a total of more than 50 per cent.

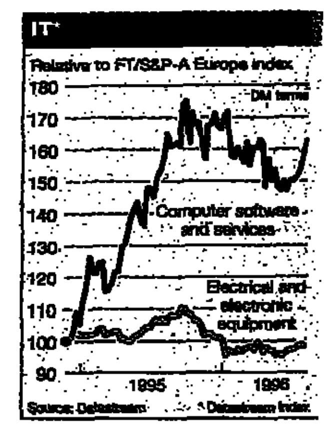
Europe's telecommunications equipment suppliers, particularly Ericsson and Nokia, have benefited from the development and expansion of digital networks based on the Global System for Mobiles standard in Europe and elsewhere.

Overall, however, the hardware segment of the European IT sector has markedly underperformed other parts of the sector over the past year, particularly the software and computer services segments, reflecting the shift towards the higher margin value added parts of the IT industry.

Figures prepared by Broadview Associates, the ITR mergers and acquisitions specialists, show their European index of software shares gained almost 80 per cent over the year to April 1 – the index of supporting products and services gained about 40 per cent. In contrast, the hardware segment actually lost a few points.

Among the large European companies to benefit have been Cap Gemini Sogeti, whose UK-based computer services subsidiary, Hoskyns, has performed strongly, helped by the trend towards outsourcing IT services, and SAP, the German software group.

SAP's shares have performed strongly on the back of the success of its R/3 software package.



European electronics groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
[illegible]	[illegible]	[illegible]	1,205.31	29.95
[illegible]	[illegible]	[illegible]	1,464.97	[illegible]
ABB	Swed/Switz	33.65	1,311.44	22.34
ALCATEL ALSTHOM	France	31.18	-4,924.33	14.12
[illegible]	[illegible]	[illegible]	481.64	[illegible]
[illegible]	[illegible]	[illegible]	316.91	[illegible]
NOKIA	Finland	7.71	413.09	3.76
THOMSON	France	6.83	194.28	3.08
[illegible]	[illegible]	[illegible]	473.19	[illegible]
[illegible]	[illegible]	[illegible]	357.37	0.99

■ **Insurance** • by Ralph Atkins

Wave of profits is set to break

European insurers have been riding the crest of a wave. Last year profitability rose as insurance companies enjoyed the benefit of higher premium rates introduced since the early 1990s. A favourable claims pattern was unspoilt by catastrophes.

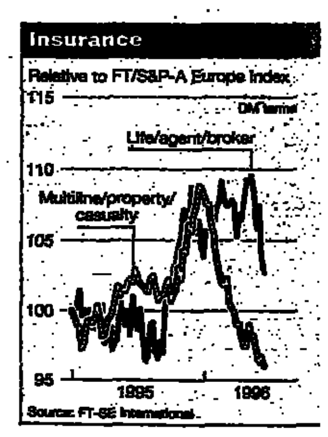
But the widespread expectation is that 1995 will have set a high water mark. Strong profits have encouraged competition, forcing premium rates downwards. A particular feature of the past year has been the emergence across the continent of a new generation of telephone-based motor and household insurers, akin to Royal Bank of Scotland's Direct Line in the UK.

Low-cost telephone insurers have been helped by deregulation, triggered by European Union directives which since the summer of 1994 have been sweeping away restrictions on policy tariffs and terms. The effect has been felt particularly in the conservative German market where price competition for selected business has grown significantly.

Switzerland, which has deregulated in line with the EU, and Italy are also soon expected to see the impact of more competitive marketplaces feeding through. As if a harbinger of tougher times ahead, Winterthur announced last month it had increased reserves by "several hundred million" Swiss francs, partly as a defence against possible leaner times. Mr Tom Bennett, insurance analyst at Paribas Capital Markets, says: "Mostly the markets are in the process of peaking out."

An exception is France where the exposure of insurers to the property market and a recent spate of large acquisitions has left managers with little choice other than to maintain tight underwriting discipline.

In the UK, where profits have already begun to turn downwards, thanks in part to a severe winter, the early months of 1996 brought the announcement of plans for the merger of two of the biggest insurance companies – Royal Insurance and Sun Alliance. The attempt to build a larger company better able to weather trading conditions ahead is a sign of the times.



European insurance groups - top 10 by capitalisation

Company	Listing	Premiums ($bn)	Net income ($m)	Mkt cap ($bn)
[illegible]	German	45.56	1,301.72	38.80
[illegible]	Netherlands	12.52	1,533.50	21.90
GENERALI	Italy	21.86	410.11	19.15
MUNICH RE	German	18.86	211.40	15.14
[illegible]	Netherlands	11.28	765.88	13.23
[illegible]	Switzerland	19.07	548.73	12.86
PRUDENTIAL*	United Kingdom	12.86	1,144.58	12.56
AXA	France	19.27	434.17	10.96
COMMERCIAL UNION	United Kingdom	5.55	670.44	8.33
[illegible]	France	6.17	300.04	8.17

*net income - est. **Net premium written ***gross premium, Source: Paribas

■ **Leisure** • by Alice Rawsthorn

Leader to pursue a solo career

One of the most exciting areas of the European leisure sector over the next few months will be the music industry, where two groups – the UK's Thorn EMI and PolyGram of the Netherlands – seem set to come under the spotlight.

The main focus of attention will be Thorn EMI, poised this summer to demerge Thorn, its household rental business, from EMI Group, one of the world's largest record companies, which has the Beatles, George Michael, Radiohead and Roberto Alagna on its roster.

The countdown to demerger began on June 11 when Sir Colin Southgate, Thorn EMI's chairman, disclosed some details of the process while unveiling the group's annual results. On the same day Sir Colin announced a 27 per cent increase in pre-tax profits from £423m to £539m for the year. Formal proposals will be circulated to shareholders on July 22, with an extraordinary general meeting scheduled for August 16 and the two companies due to be quoted separately three days later. Investors will then see whether, as speculators suspect, a North American group such as Seagram, Walt Disney, Viacom or News Corp mounts a bid for EMI.

Meanwhile PolyGram, the world's largest record company, faces the challenge of returning to profits growth after last year's setback when it reported static profits of Fl 741m ($433m) for 1995 due to the guilder's strength, increased losses by its film division and delays in the release of a number of important new albums.

Analysts anticipate an improved profits performance from PolyGram this year. Business has picked up this spring after a sluggish start to 1996 with the release of new albums from Bryan Adams, The Cranberries and Sting. Mr Nigel Reed at Paribas predicts an 8.5 per cent increase in net profits to Fl 804m for the full year.

The outcome for 1996 will be determined by the performance of PolyGram's music interests in the critical fourth quarter, when a new album is due from U2, and by the progress of the film division, where investors are waiting to see whether critical acclaim that has greeted films such as *Fargo* and *Dead Man Walking* is translated into profit.

The Beatles: a valuable asset on the roster of EMI, which will soon demerge from Thorn — Photo Press

European leisure groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
THORN EMI	United Kingdom	6.81	161.12	14.56
ACCOR	France	5.97	177.55	3.93
LADBROKE	United Kingdom	5.81	90.45	3.30
POLYGRAM	Netherlands	5.12	431.11	10.89
RANK	United Kingdom	3.95	792.75	6.86
GRANADA	United Kingdom	3.60	381.43	10.63
FORTE	United Kingdom	2.70	134.39	5.57
COMPASS	United Kingdom	2.27	81.54	2.55
EURO DISNEY	France	0.90	21.92	2.16

■ **Media** • by Raymond Snoddy

Battle for digital prize

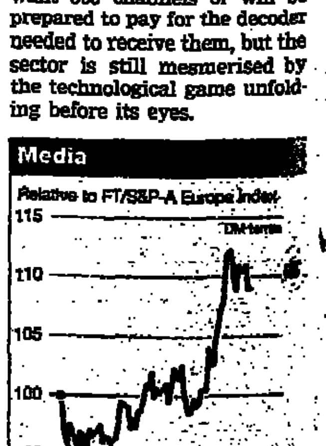
Despite concerns about flat advertising revenue in some European countries, the media sector has been one of the best performing, as one excitement followed another on the way to the digital media future.

In the past five years the value of the media sector has more than doubled, and with the exception of the early 1990s the European media sector has outperformed the market by more than 40 per cent. That trend seems likely to continue although individual companies have faced pressure for various different reasons.

Reed Elsevier, despite healthy profits growth, has to try to beat off widespread perceptions that its highly profitable academic journal business is under threat from the Internet. VNU looks like suffering from increasing competition in the Dutch advertising market in both newspaper and commercial television. In the UK there have been uncertainties for Pearson, owner of the Financial Times, because of serious problems at Mindscape its US electronic games acquisition. Carlton Communications, despite healthy profit rises is still seen to be struggling to find its next big step forward.

Companies which are mainly in the traditional markets of newspapers, magazines and publishing are increasingly worried about whether they can afford to get into the electronic media – or afford not to. Even traditional television companies are concerned about what they should do about the coming threat from digital television which will be able to offer 500-1,000 television channels over Europe in the next 18 months.

Most have to watch nervously as media giants such as Rupert Murdoch's British Sky Broadcasting, Canal Plus and Bertelsmann try to carve up the digital television future of Europe. Nobody knows whether European consumers want 500 channels or will be prepared to pay for the decoder needed to receive them, but the sector is still mesmerised by the technological game unfolding before its eyes.



European media groups - top 10 by turnover

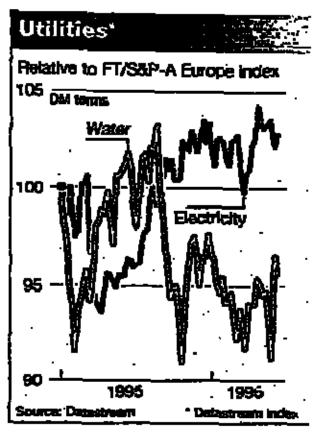
Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
HAVAS	France	8.58	170.43	5.37
REED ELSEVIER	Netherlands/UK	5.51	838.54	19.79
REUTERS	United Kingdom	4.08	625.14	19.78
PEARSON	United Kingdom	2.76	394.11	5.99
AXEL SPRINGER	Germany	2.70	92.42	2.18
AUDIOFINA	Luxembourg	2.69	102.25	3.14
CARLTON COMMS	United Kingdom	2.39	249.45	4.09
WPP	United Kingdom	2.35	103.74	2.23
CEP COMMUNICATION	France	2.18	100.22	1.86
CANAL+	France	1.85	128.11	5.15

EUROPEAN RESULTS ANALYSIS

Utilities • by John Kingman

The thrill of the dull

In theory utility shares are safe, boring investments – more like bonds than equities, with returns and risks both low. The reality is rather different. As utilities' results show, thanks largely to cost-cutting, they can usually deliver handsome earnings increases even if sales growth is dull. Look at Belgium's Tractebel or Spain's Endesa; Germany's RWE or Veba; or anywhere in the UK utility sector – across the board, profits growth looks distinctly healthy.



But utilities can make sparky investments for another reason: even if the businesses are boring, regulatory intervention and takeover activity can comfortably make up for it. Extreme examples have been the British generators, National Power and PowerGen: thanks to a prolonged tussle over ground rules for takeovers in the sector, few British investments can have been as volatile in recent months.

Such regulatory uncertainty is bound to spread. For a start, even if the European Commission's efforts seem continually bogged down, pressures to sharpen competition in European energy markets are strong. Germany, where energy prices are conspicuously high, is working on legislation to open up its gas and electricity markets to competition.

But it is not just competition investors have to worry about. Even more damaging can be the temptation to drift away from a boring core business into cash-draining gambles elsewhere. Last year, for instance, despite a respectable result in its water business, disastrous property and construction results took the French water giant, Générale des Eaux, heavily into the red. Though Lyonnaise des Eaux, Générale's main competitor, has been less badly hit, its diversification record has been pretty undistinguished too.

These issues will be at the front of investors' minds – if only because of the number of utilities offerings in the pipeline. The imminent sale of British Energy, the nuclear power operator, is a case in point. Investors have to weigh its formidable cash-generating potential against two big unknowns: the risk, with low investment needs in the core business, that management could splurge the cash unwisely outside it – and the difficulty of predicting the impact of competition on electricity prices. Similarly, the Spanish and Italian governments are likely to press on soon with selling slices of Endesa and Enel. These sales could be quite lively: Endesa is up against a strong lobby calling for a break-up and Enel faces powerful criticism of its market dominance.

European utilities - top 20 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
RWE	Germany	34.41	706.23	12.39
GEN DES EAUX	France	31.24	-747.45	12.58
LYONNAISE DES EAUX	France	18.89	174.28	5.85
BRITISH GAS	United Kingdom	12.99	768.59	13.36
TRACTEBEL	Belgium	10.19	358.76	5.61
ENDESA EMPRESA	Spain	6.90	1,170.00	16.28
ELECTRABEL	Belgium	6.83	911.44	12.11
IBERDROLA	Spain	6.30	671.99	8.99
NATIONAL POWER	United Kingdom	5.97	792.75	9.09
VEREINIGTE ELEKT	Germany	5.56	162.72	3.92
POWERGEN	United Kingdom	4.36	585.88	5.93
SCOTTISH POWER*	United Kingdom	3.92	508.57	5.32
UNITED UTILITIES**	United Kingdom	3.81	623.33	2.42
ITALGAS	Italy	2.77	61.56	2.36
BERLINER KRAFT	Germany	2.74	101.97	2.02
UNION ELECTRICA FENOSA	Spain	2.71	154.86	1.73
SOUTHERN ELECTRIC	United Kingdom	2.54	234.81	3.21
GAS NATURAL	Spain	2.26	279.81	6.51
SEVILLANA DE ELECTRICIDAD	Spain	2.21	137.33	2.59
YORKSHIRE ELECTRIC	United Kingdom	2.20	242.96	1.89

*pro-forma results including Manweb **pro-forma results North West Water and Norweb merger

Pulp and paper • by Alison Maitland

High stocks keep demand and prices low

First quarter results from leading European pulp and paper groups confirmed the gloomy state of the industry as it struggles with the aftermath of a price collapse, weak demand and continuing high stocks.

Combined pre-tax profits from SCA, Stora, AssiDöman and MoDo fell 32 per cent following the sharp turnround in the industry's fortunes which began last autumn. KNP BT, the Dutch group, saw net profits drop by 59 per cent as customers cut stocks and sales tumbled.

Pulp prices, which had halved since September, have now come off the bottom. But an increase in softwood pulp prices from $520 to $560 a tonne mooted by producers for the start of June does not appear to be going through. The consensus seems to be that recovery will happen in the autumn at the earliest.

Norscan grade pulp stocks fell by 370,000 tonnes in April to 2.15m tonnes and were down again last month, but industry players feel they need to hit 1.5m tonnes before pulp prices recover. Stocks are still well above the 30 days' supply level which has triggered price increases in the past.

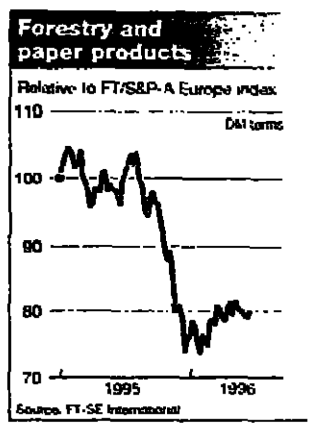
European paper prices have not yet started to pick up either but there should be a recovery by the autumn, provided capacity utilisation and delivery times increase.

Pre-tax profits will be poor after last year's record performance, with some analysts predicting a 55 per cent fall across the sector.

Next year, however, could see a 10-20 per cent recovery once stock levels return to normal and price increases feed through.

Consolidation could help earnings over the next couple of years, bringing more specialisation in added value production in some sectors such as magazine paper – but that will also depend on operating rates recovering.

Scandinavian shares have outperformed their local markets over the past few months as early cyclical stocks have won favour on expectations of economic recovery. Some analysts expect this outperformance to continue at least for the rest of this year, with bouts of weakness.



On a price-to-book-value ratio, which strips out earnings volatility, bulls point to scope for upward movement. The current ratio is less than 1 per cent, compared with a previous peak of 1.5 times.

European forestry groups - top 10 by turnover

Company	Listing	Turnover($bn)	Net income ($m)	Mkt cap ($bn)
UPM-KYMENNE*	Finland	11.48	394.74	5.25
SCA	Sweden	9.60	509.23	2.51
KNP BT	Netherlands	8.75	273.45	2.54
STORA	Sweden	8.39	788.98	3.37
ARJO WIGGINS APPLETON	United Kingdom	5.38	28.24	2.26
SMURFIT, JEFFERSON	Ireland	4.72	465.69	2.94
ENSO GUTZEIT	Finland	4.41	382.24	1.06
REXAM	United Kingdom	3.61	199.32	2.91
MODO	Sweden	3.28	539.66	1.73
ASSIDOMAN	Sweden	3.21	502.84	2.53

*pro-forma results of merger between Repola and Kymmene

Pharmaceuticals • by Daniel Green and Daniel Bogler

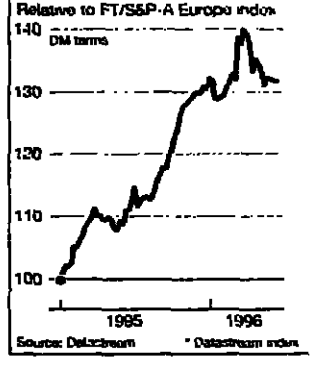
In remission from intervention

Prospects for Europe's pharmaceuticals industry have rarely looked healthier. It is almost 18 months since any government has moved to hold back healthcare spending growth by controlling drug prices. Volumes have bounced strongly. Prescription drug sales for the first two months of 1996 grew at 10-16 per cent a year, compared with just 6 per cent in the US, according to market research group IMS.

The industry expects governments to return to the attack eventually. When they do, it will almost certainly trigger further industry consolidation, which would be good news for investors. There are several companies, especially in Germany, France and Italy which so far have been left out of the wave of takeovers.

Consolidation will feature in any case. It is becoming increasingly difficult for medium-sized companies to compete in either R&D or marketing with giants like Glaxo Wellcome of the UK and Novartis, the merger of Ciba and Sandoz, the Swiss drugs companies. Analysts point to Schering in Germany and Synthélabo of France as among those that might seek new alliances.

The success of Ciba/Sandoz and the combination of Pharmacia and Upjohn has also alerted management and investors to the substantial shareholder value such deals can release. This can apply equally to asset swaps and demergers. The most obvious candidates are undervalued drug businesses hidden inside integrated chemical companies like Germany's Hoechst or Bayer, and Rhône-Poulenc of France.



Despite all those positive factors, pharmaceuticals have been a dull sector so far in 1996. Partly that is due to its strong performance in 1995 when average share prices rose by a third or more: and partly due to investors' current preference for cyclical stocks. But any setback to Europe's economic growth will bring pharmaceuticals back to favour.

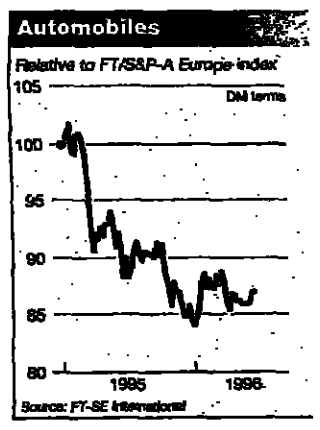
European drugs groups - top 10 by turnover

Company	Listing	Revenues ($bn)	Net income ($m)	Mkt cap ($bn)
CIBA GEIGY	Switzerland	18.54	1,722.52	32.12
GLAXO WELLCOME	United Kingdom	15.64	2,201.58	45.56
SANDOZ	Switzerland	12.03	1,625.52	36.61
ROCHE	Switzerland	11.74	2,694.03	73.31
SMITHKLINE BEECHAM	United Kingdom	10.59	1,464.70	26.98
ZENECA	United Kingdom	7.46	507.36	19.81
PHARMACIA & UPJOHN	US/Sweden	6.94	737.28	21.05
ASTRA	Sweden	5.23	1,280.91	5.15
SANOFI	France	4.43	302.96	7.87
MERCK	Germany	4.08	231.06	1.64

Motor industry • by Haig Simonian

Struggling out of neutral

This year's rise in European car sales offers a crumb of comfort to the continent's beleaguered carmakers, which are still reeling from overcapacity and high costs. Earnings in 1995 were almost invariably poor – and downright awful in the case of Renault. Against a background of generally weak demand and rising competition from new, low cost, foreign manufacturers, Europe's carmakers struggled to maintain market share by hefty price cuts for big buyers and costly incentive schemes for private motorists.



Matters have turned unexpectedly better this year. Registrations in western Europe grew 7.2 per cent in the first four months, year-on-year, against an industry forecast of 2-3 per cent growth for the year as a whole. The rise in demand – if it lasts – may allow carmakers to kick the expensive habit of cut-price sales to the fleets in their desperate bid to maintain volume and plant utilisastion.

The upturn has led to a general rerating. Having underpreformed European stockmarkets by 25 per cent in the year to March, most analysts reckon Europe's carmakers have considerable upside potential. But while many are recommending short-term overweighting, some, like Goldman Sachs, remain cautious about the longer term given the continuing imbalance between demand and supply for cars in European.

Of course, it has always been a mixed picture in the European motor industry. While luxury marques, such as BMW and Mercedes-Benz, have almost always done better than their bread-and-butter counterparts, 1996 may see some leavening as the volume producers, notably Volkswagen, make progress in reducing their high domestic cost bases.

Hence many brokers are backing the sector's former underperformers, such as VW, where recovery potential is strong.

By contrast, former darlings such as BMW and Mercedes-Benz are locked into expensive expansion programmes to boost volume. Mercedes is in the throes of a high-profile expansion programme which will culminate in production of the Smart minicar under joint development with Switzerland's SMH watches group.

Mid-market producers, such as Saab and Volvo, could find themselves the most squeezed. Both Swedish companies share the same handicap of high domestic costs and insufficient volume. Volvo's earnings will remain under severe pressure until its new models, starting with the mid-sized V40/S40, make a mark. And Saab will have to persuade investors it has a viable long-term future, even if its just-announced new top model, to fit above the current 9000 range, proves a goer.

European carmakers - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
DAIMLER BENZ	Germany	67.40	-3,732.04	27.46
VOLKSWAGEN	Germay	57.30	230.21	9.39
FIAT	Italy	48.41	1,376.75	10.99
RENAULT	France	35.41	411.64	6.89
PEUGEOT	France	31.59	327.58	6.96
BMW	Germany	30.00	450.40	10.00
VOLVO	Sweden	25.21	1,361.57	6.54
MICHELIN	France	12.72	537.83	5.36
PIRELLI	Italy	6.99	194.94	2.24
CONTINENTAL	Germany	6.70	100.88	1.63

Property • by Simon London

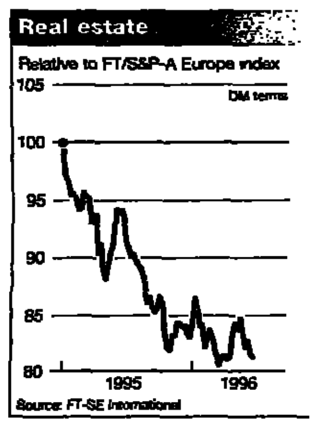
The broad appeal of the narrow

Property has a reputation among investors for being a boom-to-bust business. The massive property-related write-offs being taken by financial institutions, especially in France, suggest this image is justified. In reality, though, the tide of red ink is a delayed response to problems which arose three or four years ago. Most European property markets are now drifting sideways or downwards.

In this dull environment investors have little incentive to favour property over more dynamic sectors of the equity market. The UK is, in theory, furthest ahead in its economic cycle but there is no sign of a widespread advance in commercial property rents or values. Land Securities, which has all of its assets in the UK, recently reported a fractional decline in net assets per share in the year to March.

Some narrow sectors of the property market are faring well. Big shopping centres are generally delivering better rental growth than office properties. While there is an oversupply of empty office buildings in many European cities, modern blocks in prime locations are now in short supply. The pattern is evident in Germany, France and the UK. One implication is that stock selection has become more important for both property companies and stock market investors.

Companies with assets outside Europe have generally fared a little better. Rodamco saw the value of its European properties decline by 1 per cent during 1995, while its US properties appreciated by 1.4 per cent and its Pacific assets advanced by 6 per cent. But the Dutch company is unusual in the sector in having such a wide spread of assets.

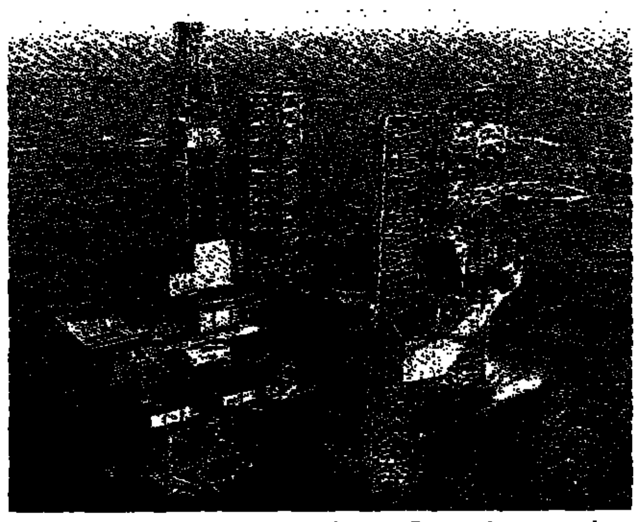


Sooner or later property markets will enjoy a sustained upswing, during which European property companies will outperform by a large measure. But 1996 will not be the year in which this upswing occurs. The current environment of relatively low growth and high real interest rates is unlikely to foster another property boom.

European property groups - top 10 by market capitalisation

Company	Listing	Market cap ($bn)	Net income ($m)
LAND SECURITIES	United Kingdom	4.82	271.35
RODAMCO	Netherlands	4.47	258.27
BRITISH LAND	United Kingdom	2.65	52.10
MEPC	United Kingdom	2.64	128.95
HAMMERSON	United Kingdom	1.62	55.42
CAPITAL SHOPPING CENTRES	United Kingdom	1.58	58.59
SIMCO	France	1.34	70.79
SLOUGH ESTATES	United Kingdom	1.30	83.20
SEFIMEG	France	1.04	-149.08
INTERSHOP	Switzerland	0.71	43.10

Source: Salomon Bros



High levels of production are expected to contribute to the oversupply that is currently a feature of the European market

Oil • by John Kingman

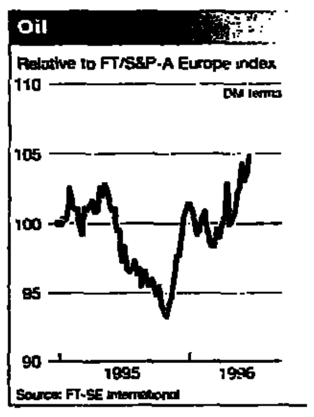
Glut makes the going stickier

1995 was a bumper year for the oil industry. The oil price was buoyant and chemicals prices boomed, comfortably displacing grim "downstream" conditions in European refining and marketing. The consequence was a sparkling set of results – notably from companies such as BP and Elf, whose managements continue to press on with cost-cutting. Even Shell, badly hit in the fourth quarter by a downturn in refining and chemicals, posted record profits.

This year looks likely to be trickier. Chemicals prices are well off last year's highs, and there are powerful downward pressures on the oil price. Fresh exports of Iraqi oil, in return for humanitarian aid, are one; strong production from both inside and outside the Organisation of Petroleum Exporting Countries is another. Moreover, although refining margins have improved, the European market remains horribly oversupplied. And marketing returns continue to be depressed by aggressive competition.

State control caps the growth potential of some shares in the sector

In these choppier conditions, the most resilient shares are likely to be those, such as Total and Repsol, with strong underlying growth prospects – and those with the clearest emphasis on boosting returns through "self-help". Of the latter, BP and Mobil provide the clearest example so far: not only have both been quick to grasp the nettle of poorly-performing European refineries, but in February the two companies announced an agreement to pool their European "downstream" operations. This will be a huge management task. But the potential boost to profits – notably from taking out duplicate distribution networks – should be substantial.



Some of the best opportunities for investors have come not from corporate performance at all, but from governments offloading oil shares at attractive prices. Italy and Spain have recently disposed of stakes in Eni and Repsol respectively. Eni's share price has boomed since the offer. Repsol's recent depressed performance, which owes nothing to the company's underlying strengths and everything to the government's politically-motivated ousting of the company's chairman, is a powerful reminder that Europe's partially-privatised oil companies are unusual beasts. Until governments start leaving them alone, they will never command the same ratings as their fully-privatised peers.

European oil groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
ROYAL DUTCH/SHELL	Netherlands/UK	105.09	6,606.25	123.06
BRITISH PETROLEUM	United Kingdom	54.52	1,694.22	47.15
ELF AQUITAINE	France	40.07	961.78	20.15
ENI	Italy	35.91	2,774.66	35.98
TOTAL	France	26.13	423.18	15.79
REPSOL	Spain	19.87	919.08	10.66
PETROFINA	Belgium	17.82	366.98	6.85
NORSK HYDRO	Norway	12.07	1,079.54	10.15
CEPSA	Spain	7.53	139.82	2.65
OMV	Austria	6.78	159.97	2.54

Telecoms • by Alan Cane

To find value, head for the Med

There is little that is homogeneous about European telecommunications so comparisons between operators can be difficult and unconvincing. The continent's two largest carriers, Deutsche Telekom and France Télécom, remain for the moment state-owned monopolies facing savage restructuring and intense competition in the years ahead.

The most liberal regime in Europe, the UK, is emerging painfully from regulatory cramps which have held back profits growth at British Telecommunications, Europe's most aggressive operator. Smaller participants are having to decide whether to seek niche markets or throw in their lot with larger rivals.

Against this background, most operators performed well last year although for many national operators, earnings growth was increasingly derived from cost cutting rather than improved revenues. Shares in quoted companies bounced back moderately after a gloomy 1995, reflecting improved sentiment.

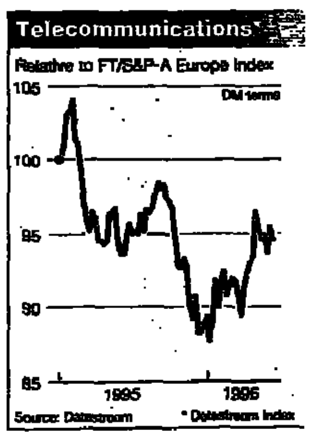
The best value is probably to be found in Italy, Spain and Portugal where competition is likely to develop more slowly than in northern Europe.

The mobile sector showed strong growth in most countries; penetration is both low and erratic, however, suggesting growth potential. For national operators, revenue growth is increasingly sustained by cellular services.

Nevertheless, Vodafone on an estimated 1996 p/e of 18.6 and Telecom Italia Mobile on 29.3 are probably overvalued given the uncertainties of the mobile market.

There most important uncertainties concern the effects of continuing privatisation and liberalisation. It is unthinkable that the Deutsche Telekom sell-off could fail but its performance after the float could affect sentiment towards other privatisations. Revenue and profits growth from traditional business activities will slow as competition bites and markets mature. Price competition will chew away at the mobile as well as the fixed wire sector.

The most successful companies will be those with a well thought-out strategy at home and abroad and convincing plans for taking advantage of the newer, higher value services.



European telecommunications groups - top 10 by turnover

Company	Listing	Turnover ($bn)	Net income ($m)	Mkt cap ($bn)
BRITISH TELECOM	United Kingdom	20.98	2,613.81	31.89
TELECOM ITALIA	Italy	19.29	1,118.97	13.92
TELEFONICA DE ESPANA	Spain	13.59	1,040.03	18.21
KPN KONINKLIJKE PTT	Netherlands	11.15	1,313.32	17.37
CABLE & WIRELESS	United Kingdom	7.75	380.67	15.78
TELE DANMARK	Denmark	3.17	587.50	0.14
PORTUGAL TELECOM	Portugal	2.72	229.67	4.04
TELECOM ITALIA MOBILE	Italy	1.80	224.44	14.03
VODAFONE GROUP	United Kingdom	1.74	358.47	11.36
TELEWEST	United Kingdom	0.22	-174.21	2.34

FINANCE

Unit trust sector resists mergers

Pressures in the highly fragmented industry work against consolidation, argues Philip Coggan

The UK unit trust investor certainly does not lack for choice. At the end of April, there were 1,646 funds on offer from 164 separate unit trust groups.

The industry seems able to resist the pressures for consolidation. Figures from the Association of Unit Trusts and Investment Funds (AUTIF) show that back in 1987, at the height of the 1980s bull market, there were just 1,137 funds available from 137 companies.

As Mr Tim Miller, the chairman of Portfolio Fund Management points out, the industry is highly fragmented, with the biggest group having a market share of just 8 per cent. Mergers between groups do occasionally occur, but many survive with only modest amounts under management and many small trusts continue to exist; in the international growth sector alone, there are 41 trusts worth less than £10m.

So why has the industry not rationalised itself? A key reason seems to be that most unit trust groups are not independent, but offshoots of other types of company. Mr Lewis McNaught, managing director of Gartmore Fund Managers, says the industry can be divided into four: insurance groups, bancassurance, stockbrokers and the independents.

"The insurance companies can run trusts on the back of their insurance operations and a unit trust operation does not add much to their overheads" says Mr McNaught. "Bancassurance companies, such as Halifax, are moving into the industry, creating a force for expansion."

The attraction of trusts for the bancassurance groups is the increasing popularity of personal equity plans (PEPs), which allow investors to receive their dividends and capital gains tax-free. Mr Philip Warland, director general of AUTIF, says that "anybody wanting to be a serious player in the personal finance industry has to set up a PEP" and unit trusts are one of the most efficient vehicles for doing so.

Some of the smallest unit trust groups fall into the stockbroking category. For them, this may be the simplest way of holding their clients' investments.

Stockbrokers may also find that a unit trust is the most convenient way for allowing their clients to invest in more esoteric areas such as emerging markets. "A lot of fund management groups have unit trusts to give clients exposure to investment areas where direct equity investment is not appropriate" says Mr Mike Webb, managing director of GT Global Investment Funds.

FUND MANAGEMENT

According to Mr Richard Royds, managing director of Mercury Fund Managers, "For a lot of private client companies, unit trust groups capture fees that would otherwise go to other companies, such as the initial charge." Furthermore, imposing a fee for managing assets and then putting clients in another firm's unit trusts, carrying an annual charge, would involve double charging.

The fourth category described by Mr McNaught – independents – has seen some consolidation; Edinburgh and Dunedin recently merged, for example. But the rapid growth of the industry, more than £1bn of new net money was invested in April, may be allowing some groups to keep afloat.

But does the UK really need that many individual trusts? There are 126 funds in the European sector alone. The main problem which has stopped trusts from merging has been stamp duty; a merger is deemed to create a change in beneficial ownership, triggering a 0.5 per cent charge on the underlying assets in the fund.

Relief could be in sight, however. The industry is hoping that the next finance act will contain a two-year "window" in which trusts can merge without incurring the duty.

The window is designed to encourage the creation of open-ended investment companies or OEICs – a new type of fund structure which will give unit trust managers more flexibility and the ability to sell their products round the world. OEICs will have a single price and will be able to have separate classes of shares, with different charging structures for different kinds of investors.

The stamp duty window and the shift to OEICs will put some downward pressure on trust numbers but there will still be forces in the other direction. Industry experience has shown that it is much easier to raise money by launching a new trust than by attracting investors to an existing fund. And the increasing sophistication of investors means that there will be demand for more single country funds, as new investment areas become fashionable.

Shrinking the number of fund management companies may also be a slow process. But there are a couple of straws in the wind that point towards rationalisation. Until a few years ago, according to Mr Webb, there was little competition in the unit trust industry on the basis of fees. But companies such as Gartmore and Virgin have introduced funds with low, or nil, initial charges. "The advent of low-load index-tracker funds is increasing competition", he says.

Secondly, there are signs that investors, or the people who advise them, are narrowing their choices to those companies which have demonstrated good performance. A few groups – such as Fidelity, M&G, Perpetual and Schroders – seem to be getting the bulk of the Pep money.

Perhaps, in 10 years time, the industry will be less fragmented.

FACES

Brady flies in with $175m under his belt

The only man with $148bn of bonds named after him flew into London last week, writes Stephen Fidler. Nicholas Brady, the former US treasury secretary whose eponymous plan to resolve the 1980s third world debt crisis spawned a new bond market, is the chairman of three Templeton funds which held their annual meetings in London last week.

Most Brady bonds have been issued by Latin American governments, and since he stepped down as treasury secretary in January 1993, the region has occupied an important part of his time.

Brady, former chairman of the Wall Street firm of Dillon, Read, says he began to view Latin America as an increasingly dynamic part of the world when he was treasury secretary: meetings with Latin American officials were far more stimulating than the dreary sessions with officials from the Group of Seven industrialised nations. "The future is very exciting in Latin America," he says.

His own venture, Darby Overseas Investments, has some $175m at its disposal, $80m of which is in Darby's management company that includes Brady's own money, and $145m in the private Darby Emerging Markets Fund. It has already made equity investments in at least six Latin American companies, including a Mexican and a Peruvian bank, and a Chilean printing company.

Brady says most of these companies should benefit from Darby's own expertise – his managing director is the former Argentine debt negotiator Daniel Marx – but are likely to be too small to reach the "radar screen" of larger investors.

There are prospects for a further enlargement of the equity fund, and Darby is now in the initial throes of establishing a fixed interest fund to invest mainly in higher-grade Latin American securities – including Brady bonds.

Nicholas Brady: found meetings with Latin American officials far more stimulating than with the Group of Seven

Rubython's Sunday Business battles on

Tom Rubython, the editor of Sunday Business, Britain's first national Sunday newspaper devoted entirely to business, must be in line for an award as optimist of the year, writes Raymond Snoddy.

Not only did he launch Sunday Business, in April, into one of the most competitive sectors of the newspaper market, but he did so without any visible means of support.

Today Rubython, who started out as a market stall trader, carries the battle for survival to court.

He is seeking to put the company into voluntary administration to protect it from creditors for the next 90 days. "I know people might think me stark staring mad," says Rubython. But he continues to believe passionately that there is a gap in the market for a pure business publication at the weekend.

As one set of staff leaves, new freelances arrive and somehow the paper keeps coming out, courtesy of a shadowy group of northern businessmen operating under a company called Group 2000. Its survival now probably depends on whether the company is allowed into voluntary administration – and the extent to which Group 2000 will continue to fund its existence.

Rubython has never been frightened of swimming against the tide – he defended a series of libel actions as founder and editor of Business Age magazine. Business Age was recently closed by VNU, the Dutch publisher he sold it to. But Rubython remains optimistic that the same fate will not overtake Sunday Business.

"We're battling on," he says.

Greenwich duo keep a patch of paradise

NatWest Markets' acquisition last week of Greenwich Capital Holdings, for $590m, has thrown an unwelcome spotlight on the latter's co-presidents, Gary Holloway and Konrad "Chip" Kruger, writes Maggie Urry.

The two shun publicity and prefer not to talk about themselves. Hardly surprising – why let anyone else in on the secret? Greenwich the town is a leafy, seaside place in Connecticut, an hour's train journey from Manhattan, with attractive houses and good schools. It has become an enclave for investment bankers keen to escape the hustle of Wall Street and give up commuting.

Peter Hall, head of NatWest Markets in the US, whose offices are in the heart of New York's financial district, says that under its new ownership Greenwich Capital will stay where it is. Moving the operation to New York would risk destroying the value of the purchase, he says: "They have got a distinctive culture based in Greenwich."

Holloway, who joined Greenwich in 1985, and Kruger, recruited in 1983, will become co-heads of Global fixed income for NatWest Markets and also join its executive committee in London and its North American management committee.

The Greenwich culture finds strong echoes with NatWest – characterised by Hall as a meritocracy, with high ethical values and rewards for performance. On top of that, says Hall, Greenwich Capital "are used to dressing down." That sums it up nicely.

Swift's iron new master

If you lay all the bankers in the world end to end, runs the old joke, they will still all point in different directions, George Graham writes.

That is the predicament of Swift, the worldwide financial messaging system co-operatively owned by 2,900 banks which carries more than $2,000bn a day of payment messages.

The new man in charge of reconciling this large and diverse constituency is Jean-Marie Weydert, currently adviser to Société Générale chairman Marc Viénot, who was elected as chairman of Swift's board of directors last week.

In his new role, Weydert sees a number of challenges for Swift.

The world's payment systems are in a state of flux, as the technology makes possible real time payments and competing private sector initiatives try to take some of the risks out of the system. At the same time, the settlement systems for bank payments and securities markets, once separate, are moving closer together.

Weydert wants securities payment messages to make up one third of Swift's traffic in the not too distant future. In the meantime, he promises an iron hand over the organisation. "There are so many examples of co-operatives which escape from their members; I am determined that Swift should not follow down that road."

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 18.06.96: Pool purchase price £/MWh	Final Prices for Trading on 13.06.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.93	8.91	8.91
0100	8.90	8.91	8.91
0130	8.89	8.91	8.91
0200	8.89	8.50	10.53
0230	8.89	8.50	10.53
0300	8.89	8.50	10.53
0330	8.89	8.50	10.53
0400	8.89	8.91	8.91
0430	8.88	8.91	8.91
0500	8.88	8.91	8.91
0530	8.89	8.71	10.74
0600	8.88	8.94	8.94
0630	8.85	8.91	8.91
0700	8.89	8.71	10.74
0730	8.89	8.71	10.74
0800	8.90	8.71	10.74
0830	8.32	8.71	10.74
0900	11.59	8.71	10.74
0930	13.31	10.00	12.03
1000	17.69	13.80	15.83
1030	20.78	14.11	16.14
1100	22.31	22.08	24.11
1130	35.10	22.08	24.11
1200	35.10	22.72	24.76
1230	35.10	22.72	24.76
1300	35.10	22.72	24.76
1330	22.31	22.72	24.76
1400	18.90	22.08	24.11
1430	17.69	22.08	24.11
1500	17.80	15.02	17.06
1530	17.60	8.95	8.95
1600	8.94	8.95	8.95
1630	8.94	8.95	8.95
1700	13.31	14.11	16.14
1730	17.60	15.02	17.06
1800	17.60	15.02	17.06
1830	13.31	8.95	8.95
1900	13.31	8.95	8.95
1930	13.31	8.95	8.95
2000	13.31	8.95	8.95
2030	13.31	8.94	8.94
2100	13.31	8.95	8.95
2130	17.80	22.08	24.11
2200	38.64	22.08	24.11
2230	80.35	16.85	18.89
2300	80.35	16.85	18.89
2330	17.69	13.41	15.44
2400	[illegible]	[illegible]	[illegible]

[illegible]

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 17.06.96: Pool purchase price £/MWh	Final Prices for Trading on 20.05.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.92	8.96	8.96
0100	8.90	8.91	8.91
0130	8.90	8.96	8.96
0200	8.90	10.11	11.61
0230	8.90	13.41	14.81
0300	8.90	13.41	14.81
0330	8.90	12.30	13.70
0400	8.90	13.41	14.81
0430	8.90	12.30	13.70
0500	8.90	12.30	13.70
0530	8.88	8.94	8.94
0600	8.89	8.91	8.91
0630	8.81	8.92	8.92
0700	8.94	8.95	10.36
0730	18.36	18.24	19.67
0800	20.14	18.87	20.28
0830	22.55	47.64	49.34
0900	29.02	48.27	50.14
0930	35.07	48.42	50.32
1000	44.69	25.19	27.15
1030	51.28	25.13	27.08
1100	65.82	23.68	25.54
1130	73.78	25.34	27.34
1200	84.22	25.47	27.50
1230	81.20	25.10	27.03
1300	73.52	24.51	28.29
1330	54.48	20.50	22.11
1400	35.94	20.51	21.87
1430	34.13	20.29	21.81
1500	32.37	20.21	21.72
1530	32.02	18.48	19.98
1600	35.44	18.56	20.10
1630	39.92	24.85	20.45
1700	48.99	28.00	28.65
1730	40.52	24.84	26.42
1800	25.76	24.59	26.08
1830	20.09	18.21	19.63
1900	18.89	18.17	19.58
1930	18.45	17.93	19.34
2000	18.29	17.51	18.92
2030	18.29	9.05	9.05
2100	18.24	9.09	9.08
2130	8.99	18.46	19.86
2200	19.86	18.46	19.86
2230	30.08	18.46	19.86
2300	30.08	18.46	19.85
2330	18.26	17.51	18.92
2400	[illegible]	[illegible]	[illegible]

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CONTRACTS & TENDERS

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Peter Martin

Staying on top of inflation

Contrarian investors might well think that the moment central bankers start to relax their fears about inflation is the moment that the debauching of the currency starts in earnest once again.

Last week's annual report from the Bank for International Settlements (BIS), the central bankers' club, was markedly different in tone from those of recent years. Its underlying message is that the world has moved to a lower inflation path, governments are committed – partly thanks to the Maastricht process – to greater fiscal discipline, and that central banks have learnt the lesson of prompt action to choke off inflation.

If the phrase "price stability" is interpreted to mean a very low level of inflation, the report says, then: "by this standard, price stability has been reached, or almost reached, in a large number of countries in the industrial as well as the developing world."

Indeed, the report verges on smugness when it contrasts the experience of the US and the UK in 1988-91 with that of 1994-95. At the beginning of both periods, the two economies became overheated, the report says. In 1988-89, however, "restrictive measures were only applied *after* inflation had started to accelerate", and the slowdown that resulted was a nasty one.

"In contrast, the rise in interest rates in early 1994, when inflation was still quite low but was expected to increase, removed inflationary pressures rather quickly without any major output and employment effects."

The report's message, in short, is that the inflationary threat is these days essentially a cyclical one, which can be warded off by prompt and appropriate monetary policy. Just as important, it implies, is the need to be equally vigilant in warding off deflation, as Keynes and Wicksell argued in the 1920s.

The BIS case is supported by some longer term trends in the real world. For example, there is still no sign of a resurgence of asset price inflation. One lesson of the Sumitomo copper affair is that exaggerated views on what prices individual commodity markets will bear will rapidly be punished by the new global arbitrage operated by the hedge funds. The one-way bet on inflation, which was an integral part of developed country expectations since at least the early 1960s, has vanished. And there has been a demographic shift towards older people, who are in general more vulnerable to inflation, among the electorates of the industrialised countries.

And yet . . . take a look at the chart alongside, which appears in the latest issue of the International Bank Credit Analyst. The rise in global liquidity in the last two years is, on one measure, the fastest since the relaxation of monetary conditions in the late 1980s. On another, it represents a reversal of the sharp deceleration in G7 broad money growth that has occurred in the 1990s.

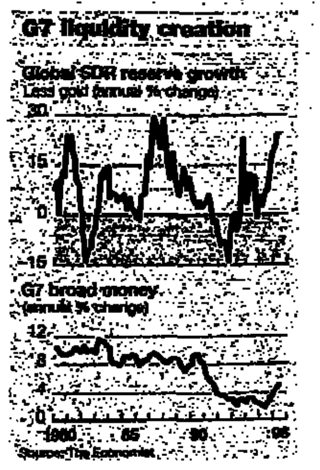
There are two ways of looking at these numbers. One way is that they represent a welcome commitment on the part of the world's central bankers to avoid the slide into deflation. Reflationary monetary policies underpin the global equity market boom. But because they come against a background of a stable price level they do not threaten a resurgence of inflation.

The alternative view is held by the more pessimistic bond investors. Unable to find evidence of rising inflation in economic statistics, they cite anecdotal evidence to support their fears. One New York-based bond fund manager said he really started to worry when he went to the railway station in Greenwich, Connecticut, a favourite commuting base for Wall Street bankers, and discovered that the nearest bank cash machine had a button to deliver $1,000 in notes.

The risk to investors probably lies as much in the tension between these two views as in the plausibility of either of them individually. The US long bond, driven by the worriers, is now yielding 7.2 per cent and the Bank Credit Analyst expects it to reach 7¾ to 8 per cent within the next six to 12 months. With US equities on a dividend yield of 1.87 per cent, the strains will ultimately show. An equity market correction of, say, 20 per cent – not an unreasonable adjustment pessimists would say, given the degree of overvaluation relative to treasuries – would wipe 1,000 points off the Dow Jones Industrial Average.

If that happened gradually over a year or so, other markets could handle the pressures: European bond markets have not followed US yields up in recent months. If a correction in US equities happened in a few days or a week, the tensions would be much greater and other markets would find themselves hurt too. In 1987, central bankers contained a similar problem at the price of continuing to provide monetary stimulus, when they should have been tightening the reins. But that was in the 1980s, of course. And now everything is different, isn't it?

G7 liquidity creation



Source: The Economist

Total return in local currency to 13/6/96

	% change over period					
	US	Japan	Germany	France	Italy	UK
Cash						
Week	0.10	0.01	0.09	0.07	0.18	0.11
Month	0.45	0.04	0.28	0.32	0.76	0.51
Year	6.00	1.13	4.56	6.81	11.44	7.19
Bonds 3-5 year						
Week	-0.74	-0.42	-0.75	-0.46	-0.01	0.03
Month	-0.79	-0.93	-0.31	-0.11	1.16	0.76
Year	2.85	2.71	8.07	12.03	22.08	9.4
Bonds 7-10 year						
Week	-1.42	-0.83	-0.83	-0.54	-0.34	-0.3
Month	-1.33	-1.82	-0.57	-0.24	1.75	0.33
Year	0.73	3.19	6.9	13.96	30.71	8.87
Equities						
Week	0.7	1.1	0.7	-0.5	-1.8	0.0
Month	1.2	3.2	2.8	1.4	-2.5	0.6
Year	27.3	41.0	20.8	15.9	8.6	17.1

Source: Cash & Bonds - Lehman Brothers. Equities-© FT/Extel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMPANY RESULTS DUE

Fashion retailer's new shops to boost profits

Hennes & Mauritz, the Swedish fashion retailer, is expected to report pre-tax profits for the six months to May 30 of SKr510m-SKr615m ($75m-$91m) on Wednesday, compared with SKr521m a year earlier, according to analysts. Their average expectation is for pre-tax profit of SKr562m. Analysts say the expected profit relies upon increased sales after the opening of more stores, but direct comparisons with a year earlier are difficult because of a change in accounting. *AFX, Stockholm*

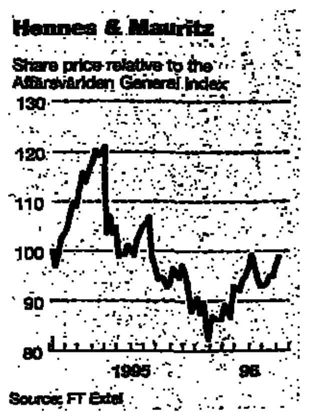
■ British Steel, the UK steel-maker, is today expected to report record profits of about £1bn ($1.5bn) pre-tax, about 60 per cent more than last year, and comfortably ahead of the previous peak of £733m reached in 1990. However, much of the gain will be due to the exceptional upswing in prices last autumn, which has since turned down. So, the City's attention will be concentrated upon what the company has to say about the current weak state of the European steel market.

■ First Leisure, the bingo, bowling and discotheques group, is expected to announce half-year profits of £17m tomorrow, up only slightly from the £16.4m a year earlier. The company's recent remarks on trading conditions have been noticeably cautious, so analysts are not expecting much in the way of an upbeat report.

■ Carpetright, the fast-growing retail chain run by Lord Harris of Peckham, is expected to report profits of between £25.5m and £27m tomorrow when it presents figures for the year to April. Analysts will be interested to hear whether the group, which flourished in a poor housing market, is doing even better in a recovering one. Its shares have more than doubled in the past year.

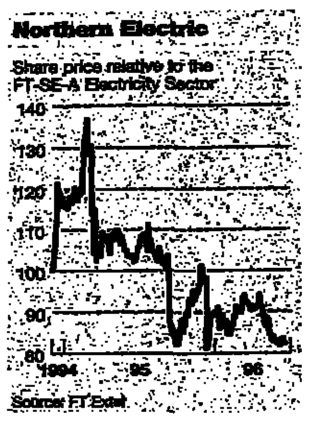
■ Airtours: The City will be keenly awaiting interim results from Europe's largest tour operator on Wednesday, not to see if it can reduce last year's losses, but for an early indication of how the all-important summer sales are stacking up. The question is not whether bookings will be down on last year, but by how much – analysts expect a decline of 15 per cent. As for the results, the market is looking for Airtours to have cut its losses from £35m to about £28m.

Hennes & Mauritz



Source: FT Extel

Northern Electric

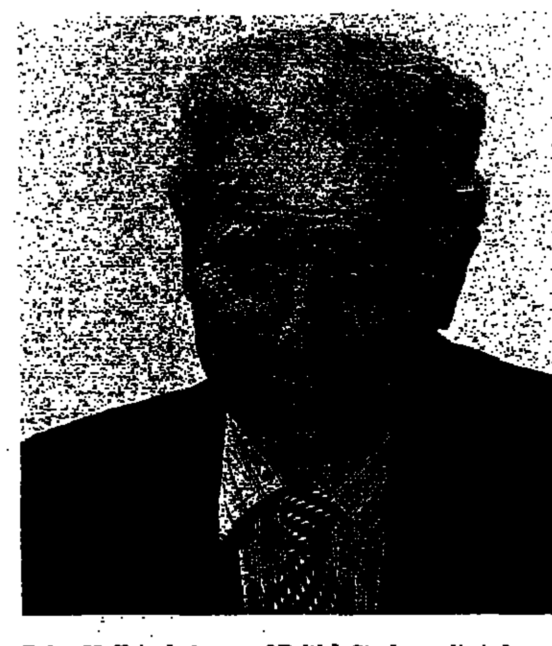


Source: FT Extel

■ Hyder: The multi-utility formed after Welsh Water's £870m takeover of Swalec in January is expected to announce details of merger benefits and costs when it reveals its preliminary results on Wednesday. The market is forecasting total savings of £75m by the end of the century. The focus will also be on job losses and the fate of the group's non-core interests, which include a 40 per cent stake in Cabletel. The acquisition is expected to help lift profits before exceptionals to about £165m, up 37 per cent from £120.4m last year. Exceptional costs of about £50m are expected to result from the merger. A dividend of about 38.5p is forecast, up 13.5 per cent.

■ Northern Electric, the regional electricity company, is expected on Thursday to report a 20 per cent rise in total dividends to 39.9p a share, up from 33.3p. Northern may surprise investors by a bigger than expected fall in gearing. As with other recs, its results will be distorted by the demerger of National Grid Company last December.

■ Wessex Water: The west of England company engaged in a bid battle for neighbouring utility South West Water rounds up the water results season on Thursday. With pre-tax profits of about £133m, earnings will be diluted by last year's bonus preference issue and a 5-for-6 share consolidation. A 15p dividend is expected, up almost 14 per cent.



Huw Evans

Brian Moffat, chairman of British Steel: results today

INTERNATIONAL EQUITIES By Antonia Sharpe

Daimler shows its friendly side

It is not just the Mercedes car which is sporting a more human face these days. Daimler-Benz, which produces the world famous cars, is equally keen to show its friendlier side to international investors.

Daimler took an important step in that direction last week when it launched its first equity-linked bond offering. The DM750m (£319.1m) offering, which can be increased to DM1.2bn, is set to be snapped by international investors who are starved of convertible bonds and who are also increasingly positive about the returns on German equities.

Cynics would say the main reason for the offering was to allow Daimler to take advantage of the low funding costs available in the convertible bond market. This is no doubt true, but the fact that Daimler's bankers worked for more than a year to find a way for the company to tap the market also shows that the deal is more than a one-off opportunity to borrow cheaply.

Indeed, the message from Stuttgart last week was that the company could not remain a global player in the automotive industry if it did not use global financing instruments and thus make its investor base more international.

The financial wizards at Goldman Sachs and Deutsche Morgan Grenfell had to solve two problems: first, how to tackle the tax issues which prevent German companies from selling convertible bonds internationally; and second, how to offer the bonds to new investors without violating the pre-emption rights of Daimler's existing shareholders, since DM750m of the offering represents new shares.

The tax issue was solved by devising a structure whereby the bonds were issued through an offshore financing arm, thus shielding the coupon from German withholding tax and the shares into which the bonds will be converted from a trade tax.

In addition, unlike past warrant-bond offerings from German companies, the warrant on Daimler's bonds cannot be detached from the bond itself. By keeping the two parts as one instrument, dubbed a "note with equity warrant securities" Daimler's bonds "smell, look and act exactly like a convertible bond," says one banker involved in the transaction.

Although German shareholders tend to be more willing to waive their pre-emption rights than their English counterparts, the issue has been addressed by offering the bonds first to existing shareholders at a price of 97.5 and afterwards to new investors at a price of between 97.5 and par.

The lead managers will not be absolutely certain of the take-up by shareholders until the end of the subscription period of July 3. However, recent statements by Daimler's biggest shareholder – Deutsche Bank with 24.4 per cent – that it intends to sell down its industrial holdings has raised expectations that it will not take up its rights.

If this proves to be the case, Daimler's offering will become an even more important milestone in German corporate history. Since Deutsche Bank owns stakes in many German companies, international investors can be confident Daimler's warrant-bond issue is the first of many to emerge from Germany in coming months.

The decision by Daimler to adopt Anglo-Saxon financing practices is not confined to Germany. Last week, Holderbank, the Swiss cement company, became the first European company to buy back an old convertible bond and at the same time issue a new one, arranger Merrill Lynch said. This process, used widely by US companies, allowed Holderbank to make substantial savings since the new bonds are zero-coupon. In addition, pre-emption was not an issue because the underlying shares were taken from the old bonds.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International Limited and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 14 1996 US Dollar Index	% chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY JUNE 13 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	200.81	5.7	193.89	138.01	158.93	168.78	-0.7	4.37	199.83	193.70	137.86	159.50	167.65	212.16	162.68	162.68
Austria (23)	192.64	10.5	186.01	132.55	152.66	152.61	17.6	1.86	192.16	186.27	132.59	153.38	153.31	199.28	168.11	181.64
Belgium (27)	212.94	1.8	205.39	146.34	168.59	164.53	8.4	4.05	211.06	204.58	145.62	168.47	164.40	215.81	186.06	191.39
Brazil (28)	167.19	21.2	161.27	114.91	132.37	308.12	24.9	2.15	164.28	159.24	113.34	131.12	302.39	171.08	123.97	133.26
Canada (99)	158.62	6.9	153.00	109.01	125.58	157.04	7.1	2.42	159.89	154.98	110.31	127.62	158.43	166.12	134.14	141.58
Denmark (30)	297.75	3.1	287.20	204.63	235.74	237.82	9.3	1.89	296.19	287.10	204.35	236.42	238.55	306.17	275.65	281.50
Finland (23)	193.42	3.4	186.57	132.93	153.14	190.18	11.6	2.63	194.39	188.42	134.11	155.16	191.67	278.11	171.73	215.71
France (97)	195.92	9.2	188.98	134.65	155.12	158.77	15.3	3.02	195.32	189.33	134.76	155.90	159.60	198.39	167.70	182.39
Germany (60)	170.09	3.9	164.06	116.89	134.66	134.66	10.6	1.84	169.79	164.58	117.14	135.52	135.52	174.38	155.66	158.32
Hong Kong (59)	424.53	9.5	409.49	291.76	336.11	422.05	9.7	3.38	423.19	410.20	291.97	337.78	420.66	451.19	348.81	365.83
Ireland (16)	288.71	13.0	278.48	198.42	228.58	257.26	14.5	3.33	287.28	278.47	198.20	229.31	257.25	288.71	229.61	231.68
Italy (59)	80.81	9.7	77.95	55.54	63.98	93.34	6.9	2.35	80.82	78.34	55.76	64.51	93.62	84.53	67.22	73.10
Japan (481)	157.02	1.4	151.46	107.91	124.32	107.91	6.8	0.71	155.04	150.29	106.97	123.75	106.97	164.68	137.75	143.82
Malaysia (107)	551.27	13.6	531.73	378.87	436.46	529.72	11.7	1.70	551.27	534.35	380.33	440.01	529.34	585.09	425.77	542.85
Mexico (18)	1218.15	17.6	1174.98	837.19	964.45	10118.80	16.0	1.39	1214.40	1177.13	837.84	969.31	10117.56	1325.65	791.99	941.54
Netherland (19)	295.71	6.4	285.23	203.23	234.12	230.21	15.4	3.13	295.40	286.34	203.80	235.79	231.77	299.69	245.79	248.92
New Zealand (15)	78.21	-1.8	75.44	53.75	61.93	61.65	-4.7	4.46	76.64	74.28	52.87	61.17	60.44	85.49	75.94	81.21
Norway (35)	255.62	10.5	246.56	175.68	202.38	226.44	14.2	2.01	255.30	247.46	176.14	203.78	227.46	255.99	222.24	224.56
Singapore (44)	416.50	2.3	401.75	286.25	329.76	270.44	1.9	1.40	415.68	402.90	286.77	331.77	270.09	465.21	356.81	396.93
South Africa (45)	359.46	-6.7	346.72	247.04	284.60	342.12	11.4	2.10	364.26	353.10	251.32	290.78	343.78	437.76	339.24	339.24
Spain (37)	181.78	10.0	175.32	124.92	143.91	177.25	16.7	3.14	180.73	175.18	124.69	144.25	177.45	181.76	145.15	148.01
Sweden (48)	354.79	13.7	342.22	243.83	280.90	351.13	14.7	2.42	354.44	343.56	244.53	282.91	352.52	360.77	259.66	261.30
Switzerland (38)	235.65	-0.1	227.30	161.95	186.57	182.75	8.6	1.62	234.11	226.93	161.52	186.86	183.26	252.34	191.24	198.85
Thailand (46)	168.87	0.4	162.89	116.06	133.70	166.02	0.9	1.99	168.08	162.92	115.96	134.16	165.46	193.95	146.74	171.48
United Kingdom (200)	233.82	1.4	225.54	160.70	185.12	225.54	2.5	4.13	233.10	225.94	160.82	186.05	225.94	237.43	210.29	217.72
USA (627)	271.46	8.0	261.84	186.56	214.92	271.46	8.0	2.18	272.36	264.00	187.91	217.39	272.36	276.47	219.17	219.17
Americas (772)	247.72	8.2	238.95	170.25	196.13	208.27	8.2	2.18	248.53	240.90	171.46	198.37	208.95	252.43	200.69	200.69
Europe (714)	210.03	4.6	202.59	144.35	166.29	184.48	8.6	3.05	209.39	202.97	144.46	167.13	185.13	211.35	187.21	188.97
Nordic (136)	303.75	10.1	292.99	208.76	240.49	264.66	13.2	2.32	303.47	294.16	209.37	242.23	265.72	306.61	250.62	252.82
Pacific Basin (831)	169.34	2.5	163.34	116.38	134.07	118.63	6.5	1.16	167.50	162.36	115.56	133.69	117.69	177.01	148.86	154.31
Euro-Pacific (1545)	186.19	3.5	179.59	127.96	147.41	143.60	7.5	2.05	184.85	179.18	127.53	147.54	143.24	190.57	166.51	168.65
North America (726)	264.49	8.0	255.12	181.78	209.41	263.81	8.0	2.18	265.41	257.27	183.11	211.85	264.74	269.52	214.36	214.36
Europe Ex. UK (514)	191.69	6.3	185.09	131.88	151.92	159.80	12.1	2.48	191.31	185.44	131.99	152.70	160.51	192.87	168.40	169.37
Pacific Ex. Japan (350)	285.03	7.7	274.93	195.89	225.66	246.05	5.5	3.10	284.04	275.32	195.96	226.71	245.07	296.68	243.59	254.00
World Ex. US (1735)	187.25	3.8	180.61	128.69	148.25	147.92	7.7	2.06	186.04	180.33	128.35	148.49	147.60	191.55	167.36	169.37
World Ex. UK (2162)	211.17	5.8	203.69	145.13	167.19	179.12	8.4	1.91	210.70	204.24	145.37	168.18	179.12	213.05	181.28	181.28
World Ex. Japan (1881)	244.43	6.7	235.77	167.99	193.52	231.72	8.2	2.53	244.63	237.13	168.78	195.26	232.39	247.55	207.89	207.52
The World Index (2362)	213.22	5.4	205.67	146.54	168.82	183.48	7.9	2.11	212.74	206.21	146.77	169.80	183.52	214.70	184.45	184.45

 Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 183.32 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.84 (Local). CONSTITUENT CHANGE DURING THE WEEK ENDING 14/6/96: Deletion: Midlands Electricity (UK). Name changes: Det Danske Luftfart to SAS Danmark (Denmark) and General Motors 'E' to EDS (USA).

MARKETS: This Week

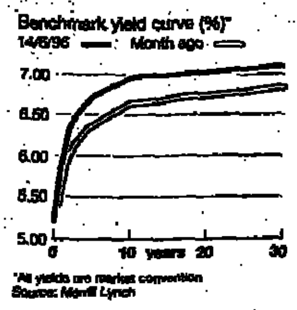
NEW YORK By Richard Tomkins

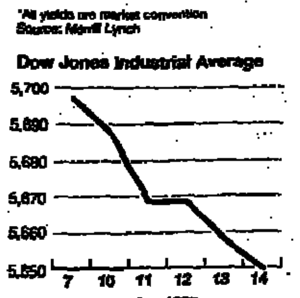
Stocks fell and bonds dithered in the US last week as confusion about the pace of economic growth continued. It is likely to be a similar story this week, with investors searching for clues about the likely direction of interest rates in the run-up to the meeting of the Federal Reserve Open Market Committee on July 2 and 3.

Although last week's consumer and producer price indices suggested that inflation remains in check, the economy's stronger than expected growth in recent months continues to raise fears that inflationary pressures will build up in the second half. As a result, most analysts seem to believe that the Fed will firm monetary policy by pushing up interest rates 25 basis points.

Still, nothing is certain, and investors will be combing this week's economic data for evidence of inflationary trends. The calendar looks relatively thin, however, so the markets could be left searching for direction.

Among the few figures to be published, those for May housing starts, due tomorrow, will be among the most influential. The consensus forecast is for a figure of 1.48m new starts, down from 1.52m the previous month. If the figure is a lot more robust, it could send jitters through the market.





On Wednesday, the Fed will release the latest Tan Book summarising regional conditions to early June. On Thursday, figures for the April trade deficit are expected to show a narrowing to $8.7bn; the same day, the Philadelphia Business Outlook Survey could cause concern if, as Salomon Brothers expects, it shows a strong pick-up in demand.

On Friday, figures for the Treasury budget are expected to show that stronger Federal spending helped produce a deficit of $50bn for May.

LONDON By Philip Coggan

The ramifications of international events seem likely to reverberate through the London markets this week, with yesterday's Russian presidential election and the Sumitomo copper losses two of the most important influences.

Domestically, last week's economic statistics, while not overwhelmingly proving that the chancellor was right to cut interest rates, at least did not undermine his position.

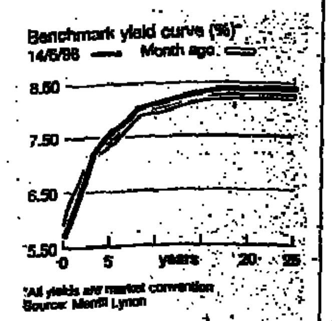
This week will provide some tricky tests in the form of May's public sector borrowing requirement (the government's room to cut taxes is looking increasingly restricted) and retail sales data.

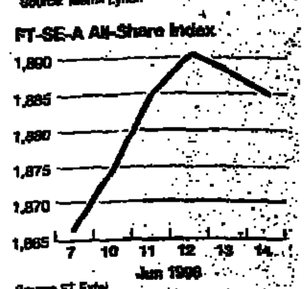
The latter may show further signs of a rebound in consumer spending, one of the reasons some think the chancellor was wrong to cut rates.

Politics continues to be a constraining factor on the markets, with the latest ructions in the Conservative party over hospital closures and Europe doing little to calm investors' nerves.

It seems that politics is preventing the FT-SE 100 index from breaking out of its recent 3,650-3,850 trading range and the yield on the 10-year gilt from falling below 8 per cent.

Gilts are also struggling in the face of the recent weakness in the Treasury market, which has been caused by concern about the strength of the US economy and the potential for inflationary pressures.





Equities would be lifted by another turn on the takeover merry-go-round, but with BBA's decision not to bid for Lucas and with the failure, as yet, of any of the rumours of mergers in the banks and insurance sector to translate into reality, the speculation is starting to look rather tired.

Unless international politics or economics provides a spark, the equity market could drift into torpor over the long summer holidays.

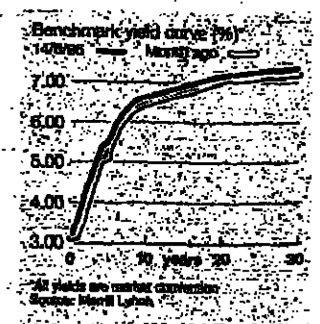
FRANKFURT By Andrew Fisher

Financial markets looked east and west last week, concerned about the Russian elections and the likelihood of further interest rate rises in the US. Traders also continued to digest the implications of the government's new short-term issuance strategy and the compromise settlement that looks likely to end the public sector pay dispute.

Weighed down by uncertainty over whether Boris Yeltsin would be re-elected, the weaker dollar and lower Bund futures prices, the stock market dipped on Friday. It is still at the high levels reached after an initial climb this year, which has been followed by modest ups and downs, but it is unlikely to resume its advance until signs of a strengthening economy become more pronounced.

Recent moderate wage settlements will help the recovery, with last week's arbitration deal in the public sector also on the low side. But employers failed to obtain reduced sickness pay entitlements and longer hours, showing that the drive to make hefty budget savings is still fraught with problems.

However, yesterday's march by 350,000 people in Bonn against social security cuts passed peacefully enough to ease government qualms about the strength of opposition to its plans.



On the debt market, news of the impending issue of short-term paper was welcomed as a contribution to enhanced competitiveness against other markets – notably France – ahead of European monetary union, and contributed to a flattening of the yield curve on Friday. A net DM20bn of six-month treasury bills will be issued annually, enough to create a proper market but not so big as to upset Bundesbank monetary policy. Two-year paper is also on the way.

TOKYO By Emiko Terazono

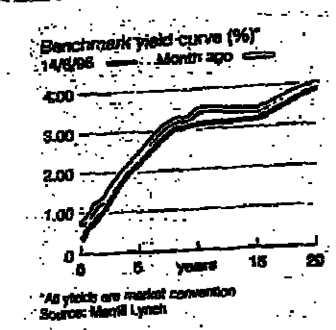
The benchmark Nikkei index may test the 10-year moving average of 23,000 this week, supported by hopes of a continuing trend of low interest rates.

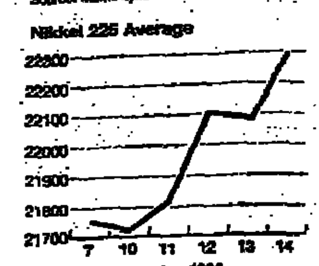
Meanwhile, although investors are bracing themselves for a plunge in shares in Sumitomo, which lost $1.8bn through unauthorised copper deals, analysts do not expect the troubles at the leading trading house to affect other shares in the sector. "Investors are likely to perceive it as an isolated case," says Mr Yuichi Matsushita, a strategist at Nikko Securities.

And while there are some fears that Sumitomo may want to realise some of its Y400bn in latent profits on its holdings, especially those of Sumitomo group companies, the shares are likely to be sold to affiliates rather than liquidated directly through the market.

On the bond market, the effects of last week's purchase of government bonds by the ministry of finance seem to be wearing off. The ministry last week purchased Y100bn in bonds outright, reducing supply on the market, through the Bank of Japan rather than buying the bonds with a repurchase agreement.

But the yield on the No 182 10-year benchmark, which fell sharply on the announcement has once again crept up,





closing at 3.235 per cent, only 2 basis points lower than the previous week's close.

Expectations of continued low short-term rates, however, are attracting foreign investors to buy euroyen bonds. The yields on some issues have fallen below bonds with the same maturity.

"Yen bonds seem to have become a sort of safe haven, especially because they haven't been moving in tandem with other global bonds," says Mr Marshall Gittler, bond analyst at Merrill Lynch in Tokyo.

COMMODITIES By Richard Mooney

Aluminium producers gather

Most metals analysts are agreed that the outlook for the aluminium market is fairly bullish. But the troubles of the London Metal Exchange copper market of late have tended to cast a shadow over other LME contracts, aluminium in particular. On Friday, however, following the breaking of the Sumitomo scandal, aluminium, like the other base metals, was able to stand aside and watch the copper price plunge and partially recover, raising hopes that the link between bearish copper and bullish aluminium might have been broken.

That possibility is likely to be on the minds of many delegates at the Financial Times/CRU International World Aluminium Conference, which begins in London today.

Speakers at the two-day event, subtitled Strategies for a Global Market, will include the chief executives of leading aluminium companies, such as Dubai Aluminium, Pechiney of France, Kaiser Aluminum of the US and Columbia Aluminum, as well as the chairman of Germany's VAW, the managing director of Transworld Metals, the president of Hindalco Industries and the director of the CRU Consultancy Group.

Subjects under discussion today will range from developing the right company structure and achieving shareholder value, to new technology for new markets and the restructuring of the aluminium industry in the former Soviet Union.

Tomorrow, speakers will cover joint venture development in China, India's response to changing customer needs at home and abroad and the difficulty of realising the aluminium sector's potential in Latin America, among others.

● Other events this week include the official opening on Wednesday of Norway's Troll gas field by His Majesty King Harald V.

That will be preceded by a two-day press seminar organised by Statoil, the operator of Troll over its expected 50-year life-span.

Tomorrow, London is the venue for the International Grains Council's annual conference, entitled Responding to Demand in Expanding Markets, Especially in Asia.

OTHER MARKETS Compiled by Michael Morgan

ZURICH

The market will continue to follow the unravelling story at Interdiscount this week, although the troubled photographic and electrical retailer is not due to report back to shareholders on its talks with creditors until next Monday, a week before a SFr45m convertible bond is due for repayment.

Meanwhile, in a recent study, Morgan Stanley noted that Switzerland proved the best performing market in dollar terms among the MSCI developed markets last year, up 42.4 per cent, outperforming even the S&P 500 by 6.3 per cent. However, Morgan took the view that the market's upward re-rating had gone too far and recommended investors to underweight the market within their European portfolios this year.

Morgan offered three main reasons. First, the Swiss equity market was looking expensive, compared with its own historical levels and other international markets. Second, the sector make-up of the Swiss market heavily favoured defensive and interest sensitive stocks, which were expected to underperform the more cyclical sectors this year. And finally, the domestic flow of funds did not look nearly as attractive for equities as it did last year.

MILAN

Details of the new government's mini budget, due by the end of the week, are eagerly awaited, as are preliminary consumer prices data for June, expected in the latter part of the week. Mr Antonio Fazio, governor of the Bank of Italy, has appeared adamant in waiting until underlying inflation breaks below 4 per cent before he will initiate interest rate cuts. And that, says Mr Andrea Azzimondi at CS First Boston, suggests that the market will have to wait until July before the long-awaited reduction. Mr Azzimondi points out that the market has already rallied by 18 per cent in dollar terms so far this year and says it has another 8-10 per cent to go by the end of the year, which would put the Comit index at 725.

HONG KONG

A cautious approach is expected in a week shortened by two public holidays, today and on Thursday, writes Louise Lucas. The threat of Sino-US trade sanctions, the recent rise in US bond yields, and the possibility of a rise in interest rates could all suppress activity.

Stocks in the limelight include Hongkong Telecom, which had a turbulent week after its main Chinese shareholder reduced its stake to 8 per cent and the government said it was starting talks on the company's international business, in which it has a monopoly.

BONDS

Eastern European debt trading will be in the thrall of the Russian presidential elections this week, writes Conner Middelmann.

Russian debt prices weakened last week, partly on profit-taking and pre-election position-squaring, and partly as a result of revelations that some government bonds in circulation had been stolen.

The direction of Russian bonds this week will depend very much on the outcome of the presidential vote: if Mr Boris Yeltsin emerges victorious in the first round, bonds have substantial upside, whereas a victory by Mr Gennady Zyuganov, his Communist opponent, is likely to push prices down sharply, analysts say.

Outside eastern Europe, Brady bonds will continue to take their cues from the US Treasuries market.

Mr Peter West, economic adviser at West Merchant Bank, says the main focus of the Brady market will be on US housing starts figures, to be published on Tuesday, "which will have a major bearing on whether the Fed raises interest rates at the FOMC meeting of July 2/3", and on the expected approval by Venezuela's Congress of a rise in sales tax to 16.5 per cent from 12.5 per cent – an essential element in the country's IMF programme.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
NatWest (UK)	Greenwich Capital (US)	Broking	$590m	Continues US rebuilding
Stet (Italy)	Entel (Chile)	Telecoms	$273m	17% stake
Kone (Finland)	O&K Rolltreppen (Germany)	Lifts & escalators	$131m	Buy from Krupp
Alusuisse-Lonza (Switz)	Celltech Biologics (UK)	Biotechnology	$77m	Celltech refocusing
RBS (UK)/Bank of Ireland (Ireland)	Farmers & Mechanics Bank (US)	Banking	$53m	Another Citizens buy
Kimberly-Clark (US)	Hogla (Israel)	Consumer products	$50m	Production venture
Whitecroft (UK)	Dox International (N'lands)	Textiles	$5.8m	Cash buy
Banco Sabadell (Spain)	Unit of NatWest (UK)	Banking	n/a	Spanish retail disposal
HSBC (HK)	Unit of Barclays (UK)	Banking	n/a	Canadian disposal
Semi-Tech Group (Canada)	Unit of Nokia (Finland)	Electronics	n/a	Nokia exits TV

CURRENCIES By Graham Bowley

Traders' attention will focus on Russia and Emu

The dollar fell sharply on the foreign exchanges on Friday, due partly to resurgent expectations of higher German interest rates as eurobond futures sold off. Traders this week will be looking for further clues as to the likely timing and direction of future German and US interest rate changes.

German M3 money supply figures are due to be released, with growth expected to fall below 10 per cent. A significant easing in the growth rate may prompt the Bundesbank to move to a variable repo rate soon, or even a cut in the repo rate.

The US "beige book" is published on Wednesday. It is seen as the best summary of current US economic conditions going into the next FOMC meeting, and therefore will be seen as a likely indication of interest rate policy.

Currency traders will also begin the week working out the implications of yesterday's presidential vote in Russia.

A poor showing by President Boris Yeltsin against his Communist rival is likely to lead to a strengthening of the Swiss franc and dollar as they benefit from their "safe-haven status". The D-Mark could be the biggest loser.

In the UK, retail sales data for May is published on Wednesday, and M4 money supply figures are released the following day.

The pound slid back slightly last week amid some speculation that the latest interest rate cut may have been politically motivated. Some analysts claimed that monetary policy may now be too loose, which means overseas investors may avoid UK assets.

Last week's data, which showed a weak manufacturing sector and subdued price pressures both in industry and on the high street, appeared to provide some economic justification for the rate cut.

Traders this week expect the recovery in retail sales growth to have continued, in line with government forecasts.

Finally, European monetary union will take centre-stage at the weekend when European heads of state meet in Florence to discuss current progress towards the single currency.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, June 14, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Estonia	(Kroon)	18.6692	12.1465	7.9759	11.1716
Ethiopia	(Ethiopian Birr)	8.9146	5.8000	3.8085	5.3348
Falkland Is	(Falk £)	1	0.6506	0.4272	0.5984
Faroe Is	(Danish Krone)	9.0256	5.8725	3.8561	5.4012
Fiji Is	(Fiji $)	2.1648	1.4085	0.9249	1.2954
Finland	(Markka)	7.2007	4.6851	3.0764	4.3091
France	(Fr)	7.3389	5.1660	3.3922	4.7514
Fr. Cty/Africa	(CFA Fr)	793.990	516.600	339.221	475.144
Fr. Guiana	(Local Fr)	7.9399	5.1660	3.3922	4.7514
Fr. Pacific Is	(CFP Fr)	144.465	94.0046	61.7273	86.4608
Gabon	(CFA Fr)	793.990	516.600	339.221	475.144
Gambia	(Dalasi)	15.1010	9.8250	6.4515	9.0366
Germany	(D-Mark)	2.3408	1.5229	1	1.4007
Ghana	(Cedi)	2509.92	1633.00	1072.30	1501.95
Gibraltar	(Gib £)	1	0.6506	0.4272	0.5984
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Montserrat	(E Carib $)	4.1499	2.7000	1.7729	2.4833
Morocco	(Dirham)	13.4684	8.7576	5.7506	8.0548
Mozambique	(Metical)	1752.95	1140.50	748.900	1046.98
Namibia	(S A Rand)	6.6927	4.3545	2.8593	4.0061
Nauru Is	(Australian $)	1.9425	1.2638	0.8298	1.1625
Nepal	(Nepalese Rupee)	86.1105	56.0250	36.7884	51.5291
Netherlands	(Guilder)	2.6215	1.7057	1.1200	1.5688
N'nd Antilles	(A/Guilder)	2.7512	1.7900	1.1754	1.6464
New Zealand	(NZ $)	2.2815	1.4844	0.9747	1.3652
Nicaragua	(Gold Cordoba)	12.8593	8.3665	5.4938	7.6951
Niger Rep	(CFA Fr)	793.990	516.600	339.221	475.144
Nigeria	(Naira)	33.8140o	22.0000	14.4461	20.2348
	(Naira)	129.458m	84.2500	55.3221	77.4891
Norway	(Nor. Krone)	10.0310	6.5265	4.2855	6.0029
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Uruguay	(Peso Uruguayo)	12.0962	7.8700	5.1678	7.2385
Vanuatu	(Vatu)	171.140	111.350	73.1171	102.414
Vatican	(Lira)	2376.87	1546.55	1015.53	1422.44
Venezuela	(Bolivar)(2)	724.872v	471.690	309.692	433.793
Vietnam	(Dong)	16927.8	11013.5	7231.93	10129.7
Virgin Is-British	(US $)	1.5370	1	0.6566	0.9198
Virgin Is-US	(US $)	1.5370	1	0.6566	0.9198
Western Samoa	(Tala)	3.8073	2.4771	1.6266	2.2783
Yemen (Rep of)	(Rial)	215.180r	140.000	91.9299	128.765
Yugoslavia	(New Dinar)	7.7168	5.0200	3.2963	4.6172
Zaire Rep	(Zaire)	59485.8	38702.5	25413.7	35596.7
Zambia	(Kwacha)	1907.42	1241.00	814.893	1141.41
Zimbabwe	($)	15.1620	9.8650	6.4778	9.0734

Special Drawing Rights June 13, 1996 Utd Kingdom £0.938175 Utd States $1.43016 Germany DM2.20787 Japan Y156.782 European Currency Unit Rates June 14, 1996 Utd Kingdom £0.818557 Utd States $1.25562 Germany DM1.91005 Japan Y135.920

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (r) Parallel rate (t) Tourist rate (u) Currency fixed against the US Dollar (v) Floating rate (1) Angolan Readjusted Kwanza devalued on 4/3/96. (2) Two tier rate replaced by floating Venezuelan Bolivar 22/4/96. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department. London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times
Friday, June 14, 1996

هكذا من الأصل

INTERNATIONAL BONDS By Conner Middelmann and Samer Iskandar

Cades goes global with Ecu15bn CP programme

Cades, the French government agency established to manage the accumulated debts of the country's social security system, today will launch the largest ever dealer-placed commercial paper (CP) programme, worth Ecu15bn.

Since Cades needs to raise the money – part of its FFr140bn financing programme – before June 28, it decided to save time by launching a global transaction rather than separate US and European CP programmes.

A substantial amount of the paper is expected to be placed with US investors, but the transaction is also expected to boost the growing European commercial paper market, which is reckoned to have around $95bn in outstanding paper, compared with some $700bn in the US.

The Eurocommercial paper (ECP) market has been restricted by regulatory constraints in countries seeking to protect their domestic CP markets (such as France, Belgium or Sweden) and fears by authorities (such as Germany's Bundesbank) that an active commercial paper market might interfere with the management of monetary policy.

Moreover, "there aren't a lot of money market funds in Europe the way they exist in the US", says Mr Martin Goldberg, head of MTN and CP product management at Lehman Brothers, the global arrangers of Cades' CP programme. Indeed, apart from France, Luxembourg and, more recently, Germany, there are few true money market funds in Europe – they are mostly ultra-short duration bond funds.

However, money market funds are expected to grow in Europe due to greater investor sophistication, more competitive fee structures and the introduction of US-style money funds by US fund managers, according to Mr Nicholas Bradley, a director in Standard & Poor's managed funds group.

"Investors are now recognising that investing in money funds provides them with diversification, economies of scale, proper segregation of assets and higher yields," he said recently.

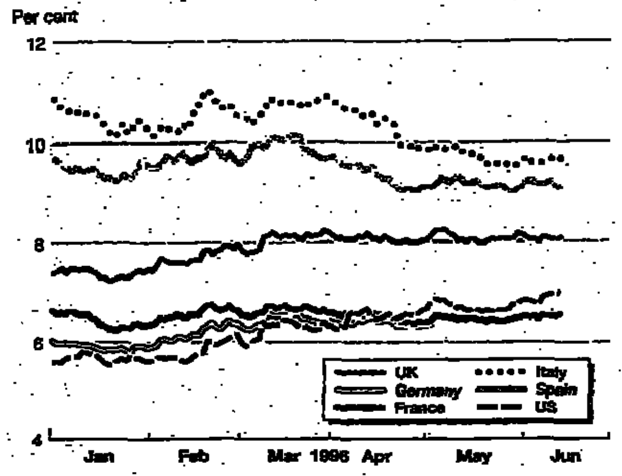
Since Cades' global programme can be drawn down in various currencies, dealers expect to see substantial demand for D-Mark paper from German money market funds which have been starved of short-dated supply.

European financial institutions are also expected to be enthusiastic buyers, attracted by the issuer's zero risk-weighting. In the US, money market funds are expected to show strong interest and in Asia, central banks are likely to be keen bidders.

Apart from Lehman, the US dealers are Goldman Sachs and Merrill Lynch while European dealers will be Barclays de Zoete Wedd, Deutsche Morgan Grenfell, Goldman Sachs and SBC Warburg.

CM

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.00	0.50	2.50	4.90[1]	9.00	5.75[2]
Overnight	5.19	0.41	3.25	3.75	8.94	5.63
Three month	5.21	0.57	3.32	3.90	8.75	5.82
One year	5.77	0.87	3.63	4.26	9.28	6.06
Five year	6.72	2.26	5.49	5.73	9.06	7.58
Ten year	6.95	3.20	6.66	6.59	9.71	8.12

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

ISMA moves Emu to top of agenda

Amid the uncertainty surrounding the move to a single European currency, the International Securities Market Association has begun preparing itself for the implications of Emu.

"Today, no one can be sure exactly how and when the Euro [the future European single currency] will come into being, but I believe that there is a growing presumption that something in Europe will change on January 1 1999," said Mr William Watt, chairman of ISMA's Market Practices Committee. He was speaking on *Friday* at the association's 28th annual general meeting in Cannes.

Although the largest financial institutions are likely to be preparing for Emu, Mr Watt fears that "the majority of [ISMA] members have not even begun to consider the potential impact on their institutions".

ISMA's board and the MPC are considering three projects, covering short-term practical issues and longer-term conceptual concerns, in readiness for "E Day" (the first day of 1999).

The first of these involves supporting the International Society of Securities Administrators in a study of the settlement and operational ramifications of the introduction of the Euro.

The second study, by the European Economics and Financial Centre with ISMA's sponsorship, will examine the cost and timescale associated with the introduction of the Euro.

The third will be undertaken by the European Capital Markets Institute, of which ISMA is a founder member. It will look into the effects of Emu on European capital markets.

Among ISMA's other preoccupations, improving the information transmission process between members – as well as to the marketplace – appears to be a priority. Mr Watt has underlined the importance of information contained in the documentation of securities offered on the primary market. The default on subordinated debt of Barings following its demise in 1995, and the subsequent lawsuit by a group of bondholders, highlighted some shortcomings of existing documentation.

The MPC is expected to recommend several changes to the presentation of securities' prospectuses.

Further trading and settlement issues are also under examination, after last year's shortening of the settlement period from seven days to three working days (T+3). Mr John Dowsett, a member of ISMA's board and architect of the T+3 reform, said a move to T+2 would be relatively straightforward.

SI

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
ACCMT II, 96-D, Class A(b)‡	519	Jun 2005	(b1)	(b1)	-	-	JP Morgan Securities
Korea First Bank(c)★‡	200	Jun 2006	(c1)	99.75R	-	-	Chemical Inv Bank
Bahrain Intl Bank(d)‡	60	Jul 2001	(d1)	100.00	-	-	BNP Capital Markets
Hyosung (America)‡	50	Jul 1999	(e)	100.00	-	-	KEB International
Republic of Italy(h)‡	2bn	Jun 2001	(h1)	99.682R	-	-	Lehman/Merrill Lynch
Federal Natl Mortgage Assoc	750	Jun 1999	6.60#	99.973R	6.610	+8(6⅜%-99)	Goldman/Salomon Bros
DePfa Bank	200	Jul 2000	7.00	100.00R	7.000	+20(i)	Daiwa Europe
Electricité de France(s)	200	Dec 1998	6.375	99.772R	6.499	flat(6%-98)	BNP/CS First Boston
Morgan Stanley do Brasil§	100	Jan 2004	10.25#	99.82R	9.879	+335(6¼%-98)	Morgan Stanley Intl
NationsBank Corp(s)‡	500	Jun 2002	(n)	99.80R	-	-	Merrill Lynch Intl
National Bank of Romania	225	Jun 1999	9.75	99.828R	9.819	+305(6⅛%-99)	Merrill Lynch Intl
Export-Import Bank of Korea	200	Jun 2001	7.25	99.437R	7.389	+47(6½%-01)	Nomura/SBC Warburg
World Bank(s)	200	Dec 1998	6.25	99.759R	6.360	-5(6%-98)	SGST Securities
World Bank★	200	Jan 1997	5.25	100.50	4.728	-	Nomura International
McDonald's Corp(s)	150	Dec 1999	6.625	99.805R	6.707	+3½(6⅞%-99)	Deutsche Morgan G'fell
Union Petrochemical(o)§	70	Jan 2003	1.50	100.00	-	-	Jardine Fleming
Baden-Württemberg L-Finance	500	Jul 2001	7.00	99.765R	7.057	+16(6½%-01)	Merrill/JP Morgan
Stadshypotek‡	100	Jul 1998	(v)	100.006	-	-	Salomon Brothers Intl
Salomon Brothers(z)‡	150	Jun 2001	(z1)	99.885R	-	-	Salomon Brothers Intl
Globopar(A)	100	Jun 2004	10⅝#	99.90R	10.49	+395(6⅞%-99)	Chase Inv'ment Bank
D-MARKS							
European Investment Bank‡	500	Jul 2006	(f)	99.70	-	-	Commerzbank
DSL Finance(s)	500	Oct 2003	6.125	99.52R	6.215	+12½(6%-03)	SBC Warburg
Expo 2000 Hannover(s)	200	Nov 2000	5.00	100.70	-	-	NordLB
SWISS FRANCS							
Cesar Corp.(r)§★	120	Sep 2000	0.125#	100.00	-	-	Nomura Bank(Switz)
Asfinag	150	Jul 2001	4.25	103.20	3.540	-	SBC Warburg
Holderbank O'seas Fin(x)§	250	Jan 2011	zero	65.37	-	-	Merrill Lynch Capl Mkts
STERLING							
Bank Austria(s)	100	Dec 1998	6.75	99.884R	6.828	+25(7¼%-98)	Lehman Brothers Intl
Bankers Trust NY Corp‡	200	Jun 2001	(k)	99.835R	-	-	PaineWebber Intl(UK)
GUILDERS							
Koninklijke PTT Nederland(y)	1.3bn	Jul 2006	6.50	98.505R	6.710	+26(j)	Rabobank Nederland
Aegon(l)	250	undated	7.625	99.25R	7.723	+108(l-12yr)	ABN Amro Hoare Govt
Republic of Argentina	250	Jul 1999	7.625	99.80R	7.702	+308(7½%-99)	ABN Amro Hoare Govt
Asik-Cger Bco	110	Jul 2001	5.50	101.60	5.128	-	Asik-Cger Bank
FRENCH FRANCS							
Philip Morris Capital Corp	1bn	Jul 2006	6.875	99.51R	6.945	+30(j)	Société Générale
LUXEMBOURG FRANCS							
European Investment Bank(s)	2bn	Dec 2004	6.25	102.30	3.90	-	BIL/C Européen-BBL
LB Rheinland-Pfalz(s)	2bn	Dec 2001	5.75	102.45	5.23	-	BIL/C Européen-BBL
ITALIAN LIRE							
Republic of Argentina	350bn	Jun 1999	11.00	99.90R	11.04	-	Deutsche Morgan G'fell
European Investment Bank‡	300bn	Jun 2003	(u)	99.90R	-	-	BCI/Cariplo/JP Morgan
Cariplo, London Branch(m)	250bn	Jul 2006	zero	40.44	-	-	Cariplo
JP Morgan & Co(t)	250bn	Jul 2001	(u1)	99.90R	-	-	BCI/BNL/JP Morgan
Rabobank Nederland(B)	150bn	Jul 2001	9.00	99.875R	-	-	Credito Italiano
AUSTRALIAN DOLLARS							
Crédit Local de France	100	Jul 2001	8.75	101.35	8.408	-	Hambros Bank
Toyota Finance Australia	200	Jul 1999	8.25	100.415	8.089	-	Hambros Bank
Finnish Export Credit★	100	Jul 1999	7.90	98.90	8.329	-	Yamaichi Intl(Europe)
ECU							
Bayerische Vereinsbank	75	Jul 2002	(w)	101.74	6.15	-	Kredietbank Intl Group
CANADIAN DOLLARS							
Crédit Local de France(s)	100	Dec 2001	7.25	99.65R	7.34	+14(7½%-01)	Toronto Dominion Bank
Vancouver City Svgs Cdt Union	100	Jul 2001	7.125	99.47R	7.255	+5(7½%-01)	RBC Dominion Secs
General Motors Accept Corp(l)	100	Jul 2001	7.50	99.85R	7.537	+31(7½%-01)	CIBC Wood Gundy
DANISH KRONER							
Crédit Local de France	500	Jul 2001	(g)	101.37	6.10	-	Kredietbank Intl Group
ESCUDOS							
Polo Securities(p)‡	31bn	Jun 2002	(n1)	100.00	-	-	Bco Efisa/Bnkrs Trust
NEW ZEALAND DOLLARS							
European Investment Bank	100	Jul 1999	9.00	100.865	8.660	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Conversion price: Y1,025. FX: 87.11Y/SFr. Callable on 30/9/99 at 103⅝% and on 31/3/00 at 101⅞%. Callable from 31/3/97 subject to 150% rule. Puttable on 30/9/98 at 103⅝%. Refixing clause setting 27/6/97 & 26/6/98. b) Advanta Credit Card Master Trust. Average life: 6.49 yrs. b1) Priced later: 1-mth Libor +16bp area. b2) Class B: $33m, av life 6.58 yrs, 1-mth Libor + around 30bp. c) Callable annually from Jun 2001 at par. c1) 6-mth Libor +65bp to June 2001 and +200bp thereafter. d) Puttable on 2/7/99 at par. d1) 6-mth Libor +137½bp. e) 3-mth Libor +65bp. f) 3-mth Libor flat, max 14%. Coupons capped at previous rate +0.5%. Initial coupon: 5.90%. g) 5⅞% to 30/7/98, then 6¼%. h) Callable from June 1999 at par. h1) 3-mth Libor -⅛%. i) Over interpolated yield. j) Callable and puttable annually from 28/6/99 at 98.50% rising 0.25%pa. k) 3-mth Libor +6¼bp. l) Long 1st coupon. m) L500bn launched 30/5/96 was increased to L750bn. Callable on 3/7/01 at 62.02%. n) Fungible with Esc20bn. Average life: 5.75 yrs. n1) 6-mth Lisbor +12½bp. o) 3-mth Libor +15bp. p) Oeffentliche Pfandbrief. q) Conversion price: NT$32.256. FX: 27.743 NT$/US$. Refixing June 1998. 90% floor. Puttable on 19/6/01 at 141.15%. Callable from 19/6/98 with 145% hurdle. Greenshoe: $15m. r) Rev 10-yr index x 0.82. s) Short 1st coupon. t) Callable on 10/7/06 & every 10 yrs at par. u) Callable on 16/7/98 at par. u1) 8.95% to 18/7/98, then 9.25%. v) 3-mth Libor flat. w) 5¼% to 30/7/98, then 6%. x) Convertible into bearer shares at SFr1,151.7. Callable from 19/6/99 at accreted value. Puttable on 19/6/99 and on 19/6/04 at accreted value. y) Includes Fl. 300m increase at 98.035R. DSLs +23½bp. z) Callable from June 1998 at par. z1) 3-mth Libor +55bp. A) Callable on 21/6/99 at 99.848% and on 21/6/01 at 99.864%. Puttable on 21/6/99 at 99.3919% and on 21/6/01 at 99.50%. B) Callable on 16/7/98 at par. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS By Jonathan Wheatley

Brazil shrugs off prophecy of doom

Mr Rudiger Dornbusch's recent Cassandra-like warnings of looming economic crisis in Brazil focused attention on its need for structural reform but *had little impact on its financial markets.*

While analysts say that some investors are now paying closer attention to Brazil's fundamentals, they add that hardened Brazil hands – and the government – have noted Mr Dornbusch's remarks and returned to business as usual.

Mr Dornbusch, professor of economics at the Massachusetts Institute of Technology and former adviser on Latin American debt to President Clinton, launched an attack on the Brazilian government's economic policies this month at a conference in Sydney and in an interview in the Wall Street Journal.

He has long been critical of Brazil's reliance on tight monetary policies to underpin its success in cutting inflation since the introduction of a new currency in July 1994.

But his recent pronouncements went further: the currency was overvalued by some 30 to 40 per cent; the balance of payments deficit was out of control; and foreign capital, attracted by high interest *rates, was ready to pull out at* any moment and precipitate a Mexico-style calamity.

Mr Dornbusch's remarks caused a flurry of irritation among Brazilian ministers. Mr Pedro Malan, president of the central bank, dismissed them with a rhetorical flourish: "The part that is correct is not new, and the part that is new is not correct," he said.

Investors were less impressed. "He upset the politicians," said Mr Helmut Bossert, a director in the capital markets division of Brazilian bank Unibanco, "but stock markets really didn't pay him *much attention.*"

True, stocks in São Paulo fell 1.6 per cent on June 3, the day Mr Dornbusch spoke in Sydney. But such a movement is hardly out of the ordinary and could as easily be explained by profit-taking or rising US interest rates; bigger swings last week had little to do with fundamentals and were probably driven by investors jockeying for position in the run-up to today's options expirations.

Why were stock markets so sanguine in the face of such dire predictions? First, because they were easy to dismiss as exaggerated. While many *analysts agree that the Brazilian* Real is overvalued, most put the margin at about 15 per cent. And Brazil's current account deficit, at about 3 per cent of gross domestic product, is much smaller than Mexico's deficit of 8 per cent of GDP before the crisis.

However, more important than these differences, says Mr Bossert at Unibanco, is the much greater degree of openness in Brazil. "With all credit to them, the Mexicans were great salesmen," he says. "They managed to sell a situation, a promise of stable growth, that didn't exist."

Mr Bossert argues that information on the state of public accounts is much more readily available in Brazil than it was in Mexico. Furthermore, an important aspect of the government's micro-management of the economy through monetary policy is its extreme pragmatism.

The central bank can be expected to make gradual adjustments to exchange rates, as it does almost daily, long before there is a pressing need *for any significant devaluation.*

Nor is there any sign that short-term capital is preparing to leave. Mr Jair Ribeiro, a director of Brazilian investment bank Patrimonio, says there has been no recent change in investors' positions before or since Mr Dornbusch's pronouncements.

"Dornbusch had the opposite effect to what you might have expected," he says. "People thought about his arguments, looked again at the numbers, and came back even more confident in Brazil's short-term prospects. They are doubly convinced that there is little prospect of a devaluation in the next 12 months."

Mr Mauro Schneider, an economist at ING Barings in São Paulo, says the quality of foreign investment has also improved. "There is much more direct investment, which *means good prospects for* exports in the future," he says. "It's much too simplistic to look only at the headline figures."

Nevertheless, there is widespread agreement with Mr Dornbusch's underlying point: that Brazil cannot continue to rely on monetary policies to hold inflation in check while its underlying cause – failure *to control public spending* – is not addressed.

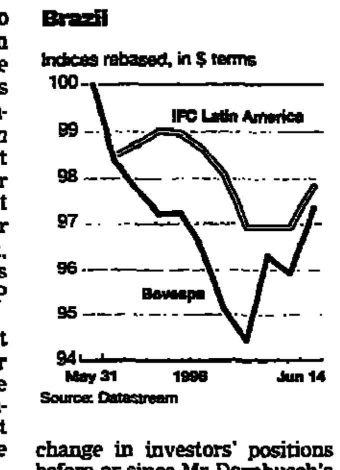
President Fernando Henrique Cardoso took office in January last year on a wave of popular support for the inflation-beating reform plan he helped devise while finance minister, but critics say he failed to use that support to push through politically difficult reforms to cut spending on pensions and on Brazil's bloated public sector.

Progress has been made on privatisation and opening the economy to private investment, but reforms that would cut spending have been bogged down in an undisciplined and recalcitrant congress.

So far, the government has kept the economy on course but its failure to make deeper reforms will put an increasing strain on public accounts. Sooner or later, if spending cuts are not made, its current policies will run out of time.

Municipal elections in October will divert attention from the reform programme and in December, January and February the country relaxes into a *holiday mood between Christ*mas and carnival. That means that between now and the presidential elections in October 1998, the government has a working year to force its reforms through congress.

Brazil



Source: Datastream

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	14/6/96	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (395)	160.38	-0.82	-0.51	-3.76	-2.29	+12.82	+8.69
Latin America							
Argentina (22)	99.95	-2.14	-2.09	-2.24	-2.19	+7.17	+7.73
Brazil (23)	217.98	-4.11	-1.85	-3.7	-1.67	+31.89	+17.14
Chile (16)	191.13	+12.28	+6.87	-1.27	-0.66	-4.53	-2.32
Colombia (14)	165.35	-1.54	-0.92	-9.36	-5.36	+1.1	+0.67
Mexico (23)	83.24	-2.29	-2.67	-3.17	-3.67	+9.65	+13.11
Peru(14)	1,039.48	+6.09	+0.59	-2.54	-0.24	-29.47	-2.76
Latin America (112)	135.55	-1.16	-0.85	-2.95	-2.13	+12.4	+10.07
Europe							
Greece (18)	106.19	-0.36	-0.34	-0.28	-0.26	+8.22	+8.39
Portugal (20)	131.3	+3.3	+2.58	+9.09	+7.44	+14.84	+12.75
Turkey (26)	119.52	+2.99	+2.57	+5.25	+4.59	+36.72	+44.35
South Africa (32)	145.65	-0.54	-0.37	-3.25	-2.18	-7.73	-5.04
Europe (96)	123.34	+0.33	+0.27	-0.45	-0.37	+1.81	+1.49
Asia							
China (24)	44.57	+0.42	+0.95	+1.58	+3.67	+4.25	+10.53
Indonesia (32)	145.33	-5.02	-3.34	-7.69	-5.03	+6.69	+4.82
Korea (23)	118.7	-6.23	-4.99	-20.39	-14.66	-18.2	-13.3
Malaysia (24)	256.22	-2.36	-0.91	-6.15	-2.34	+28.86	+12.69
Pakistan (14)	91.63	-4.71	-4.89	-4.62	-4.8	+16.04	+24.52
Philippines (14)	323.9	-13.51	-4.00	+2.6	+0.81	+64.73	+24.98
Thailand (25)	242.81	-6.85	-2.74	-17.75	-6.81	-9.07	-3.6
Taiwan (31)	175.18	+10.86	+6.61	+4.95	+2.91	+44.35	+33.9
Asia (187)	225.44	-1.23	-0.54	-7.57	-3.25	+22.39	+11.03

All indices in $ terms. January 7th 1992=100. Source: ING Baring Securities.

Tubemakers Finance Limited Notice of Redemption

to the holders of

Transferable Loan Certificates ("Certificate")

issued by .

Tubemakers Finance Limited (ACN 008 575 317)

and guaranteed by Tubemakers of Australia Limited (ACN 007 519 646)

pursuant to a U.S.$180,000,000 Transferable Loan Certificate Facility Agreement

(the "Facility Agreement") dated 29 May 1992

NOTICE IS HEREBY GIVEN that Tubemakers Finance Limited ("the Issuer") will prepay all outstanding Certificates together with all interest accrued on 28 June 1996.

The Royal Bank of Scotland Group plc

US $350,000,000

UNDATED FLOATING RATE

PRIMARY CAPITAL NOTES

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from 17th June 1996 to 17th December 1996, the Notes will bear a Rate of Interest of 6.00% per annum. The amount of interest payable on 17th December 1996 will be US $305.00 per US $10,000 *Note and US $7,625.00 per US $250,000 Note.*

AGENT BANK:

Charterhouse Bank Limited

is Regulated by The Securities and Futures Authority

CHARTERHOUSE

Fiduciary Issue by Kredietbank S.A. Luxembourgeoise to fund a loan to be made by it to

ISVEIMER

Istituto per lo Sviluppo Economico dell'Italia Meridionale

Italian Lire 150,000,000,000 Floating Rate Notes due 1997

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from June 17, 1996 to September 16, 1996 the Notes will carry an Interest Rate of 9.34375% per annum.

The Interest Amount payable on the relevant Interest Payment Date, September 16, 1996 will be ITL 118,095 per ITL 5,000,000 principal amount of Note and ITL 2,361,892 per ITL 100,000,000 principal amount of Note.

The Agent Bank
Kredietbank S.A. Luxembourgeoise

European Investment Bank

Portuguese Escudos 30 Billion Floating Rate Bonds due March 2005 (issued on March 15, 1995)

Portuguese Escudos 30 Billion Floating Rate Bonds due March 2005 (issued on June 15, 1995)

Notice to the Holders

Notice is hereby given that the Bonds will carry an Interest Rate of 7% *per annum for the period* 15.06.1996 to 15.09.1996.

- PTE 1,764 per PTE 100,000 nominal
- PTE 17,644 per PTE 1,000,000 nominal
- PTE 176,438 per PTE 10,000,000 nominal
- PTE 882,192 per PTE 50,000,000 nominal

Luxembourg, June 17, 1996

CONTRACTS & TENDERS

CROATIA

INVITATION FOR TENDERS INTERNATIONAL COMPETITIVE TENDERING

Construction of semi-highway Rijeka-Karlovac, section Delnice - Kupjak - 7,92 km

Date: June 14, 1996
Contract no: 345-04-01-5949/96

1. Hrvatske ceste, a company for maintenance, protection, reconstruction and construction of roads in Croatia, Zagreb, Voncmina 3, in accordance with the Statutory Regulation on Procurement of Goods, Services and Works (Narodne novine no. 25/96) invites tenders for construction of semi-highway Rijeka-Karlovac, section Delnice-Kupjak, in the total length 7.92 m, chainage from km 41+321,91 to km 49+239,28 except for the segments from km 41+160 to 45+500 and from km 46+903,70 to 48+107, 35 which are under construction.
2. Interested eligible tenderers may obtain further information from, and inspect the tender documents at the office of

Hrvatske ceste
Voncinina 3
10 000 Zagreb
Croatia

Phone: (385 1) 44 58 65 or 41 44 82
Fax: (385 1) 444 52 15 or 44 18 56

3. A complete set of tender documents may be purchased by any interested tenderer on the submission of a written application to the above and upon payment of a non-refundable fee of 1,000 Kuna to the giro-account no 30102-601-82731 or an equivalent amount of 180 US$ to the foreign currency account no. 70000-840-0182800-288 open at Privredna banka Zagreb. Tender documents are available from June 18, 1996. Additional sets of documents may be purchased each at the same price.
4. All tenders must be complete and delivered in duly sealed envelopes marked "NATJECAJ DELNICE-KUPJAK", to the above mentioned office, on or before July 16, 1996 12.00 noon. Tenders must be accompanied by tender security in the amount of 750.000 Kuna or an equivalent convertible currency.
5. Tenders will be opened immediately following the deadline for submission, at 12.00 noon, at the premises of HRVATSKE CESTE, Room 400, Voncinina 3, Zagreb.

Midland Bank plc

(Incorporated with limited liability in England)

U.S. $300,000,000

Undated Floating Rate Primary Capital Notes (Series 3)

For the six months from June 17, 1996 to December 17, 1996 the Notes will carry an interest rate of 5.9125% per annum. On December 17, 1996 interest of U.S. $300.55 and U.S. $3,005.52 will be payable per U.S. $10,000 and U.S. $100,000 respectively for Coupon No. 20.

By: The Chase Manhattan Bank, N.A. London, Agent Bank

June 17, 1996

CHASE

City of Stockholm

US$325,000,000

Floating rate notes 1999

Notice is hereby given that the notes will bear interest at 5.55078% per annum from 17 June 1996 to 17 September 1996. Interest payable on 17 September 1996 will amount to US$14.19 per US$1,000 note, US$141.85 per US$10,000 note and US$1,418.53 per US$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

BANQUE PARIBAS

US$200,000,000

Undated floating rate securities

In accordance with the provisions of the securities, notice is hereby given that for the three month interest period from 17 June 1996 to 17 September 1996 the securities will carry an interest rate of 5.9375% per annum. Interest due on 17 September 1996 will amount to US$15.17 per US$1,000 security.

Agent: Morgan Guaranty Trust Company

JPMorgan

BANQUE PARIBAS

US$400,000,000

Undated subordinated floating rate securities

In accordance with the provisions of the securities, notice is hereby given that for the interest period from 17 June 1996 to 17 September 1996 the securities will carry an interest rate of 5.75% per annum. Interest payable value 17 September 1996 per US$1,000 security will amount to US$14.69 and per US$10,000 security will amount to US$146.94.

Agent: Morgan Guaranty Trust Company

JPMorgan

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 14 / Sch)

BELGIUM/LUXEMBOURG (Jun 14 / Frs.)

CZECH REP (Jun 14 / Koruna)

DENMARK (Jun 14 / Kr)

FINLAND (Jun 14 / Mkk)

FRANCE (Jun 14 / Frs.)

GERMANY (Jun 14 / Dm.)

GREECE (Jun 14 / Drachma)

ITALY (Jun 14 / Lira)

NETHERLANDS (Jun 14 / Fls.)

NORWAY (Jun 14 / Kroner)

POLAND (Jun 14 / Zloty)

PORTUGAL (Jun 14 / Escudo)

SPAIN (Jun 14 / Pts.)

SWEDEN (Jun 14 / Kronor)

SWITZERLAND (Jun 14 / Frs.)

TURKEY (Jun 14 / TK Lira)

PACIFIC

JAPAN (Jun 14 / Yen)

HONG KONG (Jun 14 / H.K.$)

INDONESIA (Jun 14 / Rupiah)

MALAYSIA (Jun 14 / MYR)

NEW ZEALAND (Jun 14 / NZ $)

SINGAPORE (Jun 14 / S$)

AUSTRALIA (Jun 14 / Aust$)

SOUTH KOREA (Jun 14 / Won)

TAIWAN (Jun 14 / TW $)

THAILAND (Jun 14 / Baht)

AFRICA

SOUTH AFRICA (Jun 14 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jun 14 / Can $)

4 pm close

MONTREAL (Jun 14 / Can $)

4 pm close

INDICES

US INDICES

DJ Ind. Day's high 5887.13 (5714.83) Low 5809.88 (5822.86) (Theoretical‡)
Day's high 5664.97 (5683.44) Low 5631.36 (5638.86) (Actual‡)

RATIOS

	Jun 7	May 31	May 24	Year ago
Dow Jones Ind. Div. Yield	2.16	2.18	2.15	2.60
	Jun 12	Jun 5	May 29	Year ago
S & P Ind. Div. yield	1.87	1.83	1.88	2.20
S & P Ind. P/E ratio	19.65	22.74	22.38	17.65

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Vodafone	27,984,800	37⅛	+⅜
Kmart	9,604,300	13¾	-¼
Metromail	6,458,500	22¼	+1⅛
Micron	4,798,700	29⅝	-⅛
McDonalds	4,303,100	47	-¾
Philip Morris	4,115,100	105⅝	+1⅛
Long Island	3,821,100	17⅝	+⅛
Pfizer	3,037 200	75¾	+3⅛
WMX Tech	2,975,500	32⅝	-⅜
Oregon St	2,914,800	13	-½

TRADING ACTIVITY

● Volume (million)

	Jun 14	Jun 13	Jun 12
New York SE	385.916	379.617	390.861
Amex	18.122	20.871	21.922
NASDAQ	[illegible]	581.079	571.402
NYSE			
Issues Traded	3,110	3,138	3,139
Rises	1,006	929	1,086
Falls	1,316	1,347	1,210
Unchanged	788	862	843
New Highs	58	67	92
New Lows	34	69	66

INDEX FUTURES

S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	669.10	664.75	-4.00	669.30	664.00	91,286	110,488
Sep	674.45	670.55	-4.10	675.20	669.70	81,084	96,248

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	22200.0	22400.0	+250.0	22560.0	22180.0	53,992	191,239
Sep	22190.0	22440.0	-	22440.0	22180.0	31	4,111

Open interest figures for previous day.

TOKYO - MOST ACTIVE STOCKS: Friday, June 14, 1996

	Stocks Traded	Closing Prices	Change on day
Nippon Oil	13.1m	758	+34
NKK Corp	12.4m	324	+8
Fuji Hvy Inds	12.2m	549	-2
Nippon Stl Corp	12.0m	382	+1
Mitsubishi Hvy	10.6m	950	+12
Sakura Bank	8.3m	1210	+20
Toyota Motor	8.3m	2590	+10
Kobe Steel	8.3m	303	
Kanematsu Corp	8.1m	785	-15
Hitachi	7.9m	1070	+20

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jun 14		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.4718	-0.0535	647 - 788	16.5286	16.4484	16.4408	2.3	16.3858	2.6	-	-	104.9
Belgium	(BFr)	48.1542	-0.1551	355 - 728	48.5100	48.0730	48.0492	2.6	47.8382	2.6	46.8392	2.7	105.7
Denmark	(DKr)	9.0258	-0.0312	214 - 301	9.0600	9.0164	9.0115	1.9	8.9825	1.9	8.8605	1.8	107.5
Finland	(FM)	7.2007	+0.0146	933 - 081	7.2130	7.1630	7.1993	0.7	7.1883	0.7	-	-	83.3
France	(FFr)	7.9399	-0.0276	373 - 425	7.9615	7.9313	7.9327	1.1	7.9221	1.0	7.7896	1.9	109.0
Germany	(DM)	2.3408	-0.0076	398 - 415	2.3485	2.3382	2.3358	2.4	2.3247	2.7	2.2793	2.6	108.5
Greece	(Dr)	371.585	-0.05	395 - 735	372.973	369.955	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9720	-0.0001	714 - 726	0.9734	0.9711	0.9715	0.8	0.9709	0.7	0.9658	0.6	98.2
Italy	(L)	2376.97	+4.58	604 - 790	2387.20	2369.22	2383.32	-3.3	2394.67	-3.0	2427.02	-2.1	78.3
Luxembourg	(LFr)	48.1542	-0.1551	355 - 728	48.5100	48.0730	48.0492	2.6	47.8382	2.6	47.4392	1.5	105.7
Netherlands	(Fl)	2.6215	-0.0076	205 - 225	2.6284	2.6121	2.618	3.0	2.6016	3.0	2.546	2.9	105.9
Norway	(NKr)	10.0310	-0.0087	229 - 390	10.0945	10.0151	10.0225	1.0	10.0059	1.0	9.922	1.1	98.5
Portugal	(Es)	241.301	-0.513	169 - 433	242.883	240.886	241.728	-2.1	242.631	-2.2	-	-	94.7
Spain	(Pta)	197.836	-0.396	760 - 912	198.330	197.731	198.098	-1.6	198.611	-1.6	200.011	-1.1	80.3
Sweden	(SKr)	10.2748	-0.0012	660 - 836	10.3017	10.2668	10.2751	0.0	10.2762	0.0	10.2732	0.0	88.8
Switzerland	(SFr)	1.9225	-0.0066	214 - 236	1.9281	1.9145	1.9173	3.1	1.9067	3.3	1.8595	3.3	111.1
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.6
Ecu	-	1.2389	-0.003	381 - 397	1.2417	1.2373	1.2378	1.3	1.2348	1.4	1.2212	1.4	-
SDR†	-	1.065800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5348	+0.0074	343 - 353	1.5425	1.5341	-	-	-	-	-	-	-
Brazil	(R$)	1.5387	+0.0092	381 - 393	1.5447	1.5360	-	-	-	-	-	-	-
Canada	(C$)	2.1014	+0.0085	005 - 022	2.1147	2.0984	2.1007	0.4	2.097	0.6	2.089	0.6	84.3
Mexico	(New Peso)	11.8770	+0.0222	705 - 835	11.7422	11.6859	-	-	-	-	-	-	-
USA	($)	1.5370	+0.0075	366 - 373	1.5430	1.5345	1.5365	0.4	1.536	0.2	1.5358	0.1	97.1
Pacific/Middle East/Africa													
Australia	(A$)	1.9425	+0.0131	414 - 435	1.9574	1.9405	1.945	-1.6	1.9501	-1.6	1.9753	-1.7	93.7
Hong Kong	(HK$)	11.8914	+0.0592	879 - 949	11.9479	11.8815	11.8933	0.8	11.8817	0.7	11.8818	0.3	-
India	(Rs)	53.6396	+0.2599	200 - 592	53.9592	53.3200	-	-	-	-	-	-	-
Israel	(Shk)	5.0159	+0.0156	122 - 196	5.0272	4.9999	-	-	-	-	-	-	-
Japan	(Y)	167.105	+0.188	026 - 181	167.440	165.950	166.38	5.2	164.89	5.3	158.475	5.2	134.6
Malaysia	(M$)	3.8347	+0.0213	330 - 363	3.8475	3.8239	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2815	+0.0097	790 - 839	2.2934	2.2798	2.2865	-2.6	2.2959	-2.5	2.3396	-2.1	108.0
Philippines	(Peso)	40.2451	+0.1951	821 - 080	40.3080	40.1821	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7643	+0.0279	626 - 660	5.7866	5.7547	-	-	-	-	-	-	-
Singapore	(S$)	2.1658	+0.009	643 - 668	2.1725	2.1607	-	-	-	-	-	-	-
South Africa	(R)	6.6627	+0.089	573 - 680	6.7087	6.6141	-	-	-	-	-	-	-
South Korea	(Won)	1223.80	+8.72	329 - 431	1226.38	1221.79	-	-	-	-	-	-	-
Taiwan	(T$)	42.4306	+0.1322	132 - 479	42.5699	42.3792	-	-	-	-	-	-	-
Thailand	(Bt)	38.9310	+0.1383	144 - 475	39.0490	38.8790	-	-	-	-	-	-	-

† Rates for Jun 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.7172	-0.0872	150 - 193	10.7440	10.6740	10.6677	2.2	10.6557	2.3	10.4722	2.3	104.6
Belgium	(BFr)	31.3310	-0.254	260 - 360	31.5800	31.1820	31.278	2.1	31.181	2.2	30.621	2.3	106.3
Denmark	(DKr)	5.8725	-0.049	710 - 740	5.8916	5.8485	5.865	1.5	5.848	1.7	5.779	1.6	108.5
Finland	(FM)	4.6851	-0.0132	813 - 888	4.6947	4.6571	4.6786	1.7	4.6666	1.6	4.6211	1.4	82.6
France	(FFr)	5.1660	-0.0432	655 - 665	5.1820	5.1455	5.1581	1.6	5.1448	1.6	5.077	1.7	108.2
Germany	(DM)	1.5229	-0.0124	226 - 231	1.5274	1.5157	1.5204	2.0	1.5148	2.2	1.4864	2.4	107.5
Greece	(Dr)	241.755	-1.21	700 - 810	242.800	240.590	243.43	-8.3	246.78	-8.3	260.735	-7.9	66.9
Ireland	(I£)	1.5813	+0.0078	808 - 818	1.5864	1.5785	1.5818	-0.4	1.5827	-0.4	1.5742	0.4	-
Italy	(L)	1546.55	-4.55	630 - 680	1551.20	1541.37	1551.3	-3.7	1559.45	-3.3	1582.2	-2.3	76.1
Luxembourg	(LFr)	31.3310	-0.254	260 - 360	31.5800	31.1820	31.278	2.0	31.1715	2.0	30.891	2.0	106.3
Netherlands	(Fl)	1.7057	-0.0133	054 - 059	1.7105	1.6934	1.7024	2.4	1.6952	2.5	1.6635	2.5	106.2
Norway	(NKr)	6.5266	-0.0375	228 - 303	6.5668	6.4984	6.5235	0.5	6.5181	0.5	6.4818	0.7	97.7
Portugal	(Es)	157.000	-1.1	950 - 050	157.970	156.350	157.315	-2.4	157.905	-2.3	160.05	-1.9	94.7
Spain	(Pta)	128.720	-0.885	700 - 740	129.550	128.260	129.03	-2.9	129.4	-2.1	130.94	-1.7	79.9
Sweden	(SKr)	6.6852	-0.0333	810 - 894	6.7025	6.6669	6.6963	-2.0	6.7137	-1.7	6.7557	-1.1	89.3
Switzerland	(SFr)	1.2508	-0.0117	504 - 513	1.2550	1.2415	1.2473	3.4	1.2399	3.5	1.2064	3.6	110.1
UK	(£)	1.5370	+0.0075	366 - 373	1.5430	1.5343	1.5365	0.4	1.536	0.2	1.5359	0.1	85.2
Ecu	-	1.2408	+0.0089	401 - 411	1.2459	1.2375	1.2413	-0.7	1.243	-0.8	1.2518	-0.9	-
SDR†	-	0.69460	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9986	-	985 - 987	0.9986	0.9985	-	-	-	-	-	-	-
Brazil	(R$)	1.0012	+0.0012	010 - 013	1.0013	1.0010	-	-	-	-	-	-	-
Canada	(C$)	1.3673	-0.0011	670 - 675	1.3708	1.3670	1.3671	0.1	1.3674	0.0	1.3702	-0.2	83.6
Mexico	(New Peso)	7.5975	-0.0225	950 - 000	7.6000	7.5950	7.759	-25.5	7.944	-18.2	9.7075	-27.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.2
Pacific/Middle East/Africa													
Australia	(A$)	1.2637	-0.0023	634 - 642	1.2686	1.2634	1.2657	-1.9	1.2692	-1.7	1.2879	-1.9	95.3
Hong Kong	(HK$)	7.7435	+0.001	430 - 440	7.7447	7.7425	7.7442	-0.1	7.749	-0.1	7.773	-0.4	-
India	(Rs)	34.9000	-	000 - 000	35.1000	34.7350	35.05	-5.2	35.356	-5.2	36.825	-5.5	-
Israel	(Shk)	3.2636	-0.0056	619 - 652	3.2660	3.2539	-	-	-	-	-	-	-
Japan	(Y)	108.725	-0.47	700 - 750	108.850	107.950	108.26	4.9	107.38	4.9	103.84	4.7	135.3
Malaysia	(M$)	2.4950	+0.0018	945 - 955	2.4960	2.4912	2.4959	-0.4	2.502	-1.1	2.5255	-1.2	-
New Zealand	(NZ$)	1.4843	-0.0009	833 - 852	1.4867	1.4805	1.4874	-2.5	1.4932	-2.4	1.5178	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7503	-	502 - 507	-	-	3.751	-0.1	3.7517	-0.1	3.755	-0.1	-
Singapore	(S$)	1.4090	-0.001	085 - 095	1.4095	1.4080	1.4055	3.0	1.3995	2.7	1.374	2.5	-
South Africa	(R)	4.3545	+0.037	520 - 570	4.3600	4.3080	4.402	-13.1	4.492	-12.6	4.8295	-10.9	-
South Korea	(Won)	796.250	-1.45	100 - 400	796.000	795.600	-	-	-	-	-	-	-
Taiwan	(T$)	27.6070	-0.048	020 - 120	27.6200	27.6020	27.612	-0.2	27.617	-0.1	-	-	-
Thailand	(Bt)	25.3300	-0.033	250 - 350	25.3400	25.3170	25.4267	-4.7	25.6325	-4.6	26.515	-4.7	-

† SDR rate per $ for Jun 13. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 13: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3¼	3⅛	3⅛	3⅛	3⅞	7.00	2.50	-
week ago	3⅛	3⅛	3⅛	3⅛	3⅝	7.00	2.50	-
France	3⅞	3⅞	4	4⅛	4⅜	3.60	-	5.60
week ago	3⅞	3⅞	3⅞	4	4⅜	3.60	-	5.60
Germany	3⅜	3⅜	3⅜	3⅜	3⅝	4.50	2.50	3.30
week ago	3⅜	3⅜	3⅜	3⅜	3⅝	4.50	2.50	3.30
Ireland	5⅝	5¾	5⅝	5⅝	5⅞	-	-	6.25
week ago	5⅝	5¾	5⅝	5⅝	5⅞	-	-	6.25
Italy	8⅝	8⅜	8⅜	8⅜	8⅛	-	9.00	9.35
week ago	8⅝	8⅜	8⅝	8⅝	8⅜	-	9.00	9.35
Netherlands	2⅞	2⅞	2⅞	2⅞	3⅛	-	3.00	3.30
week ago	2⅞	2⅞	2⅞	2⅞	3⅛	-	3.00	3.30
Switzerland	1⅝	2⅛	2⅛	2⅛	2⅜	5.00	1.50	-
week ago	1⅝	2⅛	2⅛	2⅛	2⅜	5.00	1.50	-
US	5⅛	5⅛	5⅜	5½	5⅞	-	5.00	-
week ago	5⅛	5⅛	5⅜	5½	5¾	-	5.00	-
Japan	½	½	⅝	⅝	⅝	-	0.50	-
week ago	½	½	⅝	⅝	⅝	-	0.50	-
■ $ LIBOR FT London Interbank Fixing	-	5½	5⅝	5⅞	6⅛	-	-	-
week ago	-	5⅜	5⅝	5⅜	6⅛	-	-	-
US Dollar CDs	-	4.98	5.20	5.43	5.84	-	-	-
week ago	-	4.98	5.09	5.26	5.67	-	-	-
ECU Linked Ds	-	4⅝	4⅝	4⅝	4⅝	-	-	-
week ago	-	4⅝	4⅝	4⅝	4⅝	-	-	-
SDR Linked Ds	-	3⅞	3⅞	3⅞	3⅞	-	-	-
week ago	-	3⅞	3⅞	3⅞	3⅞	-	-	-

■ $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 14	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

June 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.75	16.49	4.862	2.019	4937	5.445	20.83	501.1	410.8	21.33	3.994	2.077	4.363	3.192	347.0	2.571
Denmark	(DKr)	53.35	10	8.797	2.594	1.077	2634	2.905	11.11	267.3	219.1	11.38	2.131	1.108	2.328	1.703	185.1	1.372
France	(FFr)	60.64	11.37	10	2.948	1.224	2994	3.302	12.63	303.9	249.1	12.93	2.422	1.259	2.646	1.936	210.5	1.559
Germany	(DM)	20.57	3.856	3.392	1	0.415	1015	1.120	4.284	103.1	84.49	4.387	0.821	0.427	0.897	0.657	71.39	0.529
Ireland	(I£)	49.54	9.286	8.169	2.408	1	2445	2.698	10.32	248.3	203.5	10.57	1.978	1.029	2.162	1.581	171.9	1.274
Italy	(L)	2.026	0.380	0.334	0.098	0.041	100.	0.110	0.422	10.15	8.321	0.432	0.081	0.042	0.088	0.065	7.030	0.052
Netherlands	(Fl)	18.36	3.442	3.028	0.888	0.371	906.8	1	3.825	92.03	75.44	3.917	0.733	0.381	0.801	0.586	63.73	0.472
Norway	(NKr)	48.01	8.999	7.916	2.334	0.969	2370	2.614	10	240.6	197.2	10.24	1.917	0.997	2.095	1.532	166.6	1.234
Portugal	(Es)	19.95	3.741	3.291	0.970	0.403	985.1	1.087	4.157	100.	81.97	4.256	0.797	0.414	0.871	0.637	69.25	0.513
Spain	(Pta)	24.34	4.563	4.014	1.184	0.491	1202	1.326	5.071	122.0	100.	5.192	0.972	0.506	1.062	0.777	84.48	0.626
Sweden	(SKr)	46.88	8.789	7.731	2.279	0.946	2315	2.553	9.766	235.0	192.6	10	1.872	0.974	2.046	1.497	162.7	1.205
Switzerland	(SFr)	25.04	4.694	4.129	1.217	0.505	1236	1.363	5.216	125.5	102.9	5.341	1	0.520	1.093	0.799	86.90	0.644
UK	(£)	48.15	9.026	7.940	2.341	0.972	2377	2.622	10.03	241.3	197.8	10.27	1.923	1	2.101	1.537	167.1	1.238
Canada	(C$)	22.92	4.296	3.779	1.114	0.463	1131	1.248	4.774	114.9	94.15	4.888	0.915	0.476	1	0.732	79.53	0.589
US	($)	31.33	5.872	5.166	1.523	0.632	1547	1.706	6.526	157.0	128.7	6.682	1.251	0.651	1.367	1	108.7	0.805
Japan	(Y)	28.82	5.402	4.752	1.401	0.582	1423	1.569	6.002	144.4	118.4	6.146	1.151	0.598	1.257	0.920	100.	0.741
Ecu		38.89	7.291	6.414	1.891	0.785	1920	2.118	8.102	194.9	159.8	8.296	1.553	0.808	1.697	1.242	135.0	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.6556	0.6549	-0.0001	0.6600	0.6548	8,048	34,637
Sep	0.6583	0.6583	-0.0002	0.6635	0.6582	25,083	44,175
Dec	0.6675	0.6622	-0.0004	0.6675	0.6620	65	1,883

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.7983	0.7959	-0.0019	0.8055	0.7956	5,314	18,916
Sep	0.8034	0.8017	-0.0018	0.8118	0.8015	19,413	35,140
Dec	0.8140	0.8078	-0.0020	0.8164	0.8082	57	899

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	0.9202	0.9185	-0.0029	0.9265	0.9182	8,394	31,420
Sep	0.9314	0.9282	-0.0030	0.9385	0.9280	28,764	61,144
Dec	0.9480	0.9401	-0.0032	0.9492	0.9395	91	3,555

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Jun	1.5342	1.5350	+0.0010	1.5430	1.5336	5,510	34,293
Sep	1.5342	1.5342	+0.0010	1.5420	1.5326	14,699	38,121
Dec	1.5332	1.5350	+0.0008	1.5430	1.5332	4	63

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	Jul	Aug	PUTS Jun	Jul	Aug
1.510	2.51	2.67	2.98	-	0.24	0.48
1.520	1.55	1.92	2.32	-	0.40	0.77
1.530	0.57	1.26	1.71	-	0.68	1.15
1.540	-	0.74	1.21	0.38	1.18	1.65
1.550	-	0.45	0.85	1.30	1.80	2.25

Previous day's vol., Calls 5,424 Puts 4,125 . Prev. day's open int., Calls 201,971 Puts 193,058

■ **Pound in New York**

Jun 14	Close	Prev. close
£ spot	1.5370	1.5345
1 mth	1.5365	1.5340
3 mth	1.5361	1.5336
1 yr	1.5365	1.5329

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Jun 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	5¾ - 4	5¾ - 5½	5⅞ - 5⅝	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6⅛
Sterling CDs	-	-	5⅞ - 5⅝	5⅞ - 5⅝	5⅞ - 5¾	6⅛ - 6
Treasury Bills	-	-	5⅞ - 5⅝	5⅝ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅝	5⅝ - 5⅞	5⅝ - 5⅞	-
Local authority deps.	5⅞ - 5⅞	5⅞ - 5⅝	5⅞ - 5⅞	5⅝ - 5¾	6 - 5⅞	6⅛ - 6⅛
Discount Market deps	5⅞ - 5	5⅞ - 5⅝	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Ave. tender rate of discount on Jun 14, 5.6058pc. ECGD fixed rate Stlg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 23, 1996, Schemes II & III 7.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Jun 14	Jun 7		Jun 14	Jun 7
Bills on offer	£800m	£1000m	Top accepted rate	5.6153%	5.6554%
Total of applications	£4301m	£2807m	Ave. rate of discount	5.6058%	5.6301%
Total allocated	£800m	£800m	Average yield	5.6852%	5.7102%
Min. accepted bid	£98.600	£98.590	Offer at next tender	£600m	£800m
Allotment at min. level	17%	6%	Min. accept. bid 182 days	-	-

FT GOLD MINES INDEX

	Jun 14	% chg since 29/12/95	Jun 13	Mkt Cap £m	% of Gold Sector	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (31)	2085.93	+8.0	[illegible]	[illegible]	100.00	1.48	-	2520.73	1722.63
■ Regional Indices									
Africa (13)	2745.56	+8.7	[illegible]	[illegible]	27.44	2.84	37.40	3553.85	2272.74
Australasia (8)	2473.87	+4.4	[illegible]	[illegible]	11.54	2.56	[illegible]	2927.34	2088.51
North America (12)	1845.82	+8.5	[illegible]	[illegible]	61.02	0.73	65.84	2189.39	1488.84

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.41	94.41	-	94.42	94.40	48,132	307,633
Sep	94.10	94.13	+0.04	94.14	94.08	73,938	389,784
Dec	93.73	93.79	+0.07	93.80	93.70	134,678	427,844

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.90	94.92	+0.03	94.93	94.90	1,609	4,319
Sep	94.81	94.85	+0.05	94.87	94.81	659	5,604
Dec	94.32	94.38	+0.06	94.40	94.31	193	1,508

All Open interest figs. are for previous day

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
8	Nil	21/6	1½pm	¾pm	Albrighton	¾pm	-¼
122	Nil	23/7	11pm	8pm	Burford	11pm	+1
810	Nil	23/7	115pm	73pm	Critchley	73pm	-5
153	Nil	24/7	70pm	53pm	Enterprise Inns	70pm	+5
140	Nil	17/7	25pm	18pm	Firstbus	18pm	+1
§200	Nil	23/7	28¼pm	25¼pm	Green Property	28¼pm	
105	Nil	16/7	108pm	98pm	Sketchley	108pm	-2

pm premium.

BANK RETURN

BANKING DEPARTMENT	Wednesday June 12, 1996 £	Increase or decrease for week £
Liabilities		
Capital	14,553,000	
Public deposits	1,168,242,645	-76,970,787
Bankers deposits	2,016,712,637	-1,547,489
Reserve and other accounts	4,179,826,589	+207,522,788
	7,379,334,871	+129,004,512
Assets		
Government securities	1,539,988,900	-897,275,000
Advance and other accounts	2,978,509,372	+1,044,757,584
Premise, equipment and other secs	2,856,649,159	-219,399,848
Notes	6,086,877	+921,847
Coin	100,563	-51
	7,379,334,871	+129,004,512
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	20,213,913,123	-30,921,847
Notes in Banking Department	6,086,877	+921,847
	20,220,000,000	-30,000,000
Assets		
Other Government securities	16,827,906,480	+2,288,776,597
Other Securities	3,392,093,520	-2,318,776,597
	20,220,000,000	-30,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	6.00
Allied Trust Bank	5.75	Exeter Bank Limited	7.00	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	6.00
Bank of Cyprus	5.75	*Habib Bank AG Zurich*	5.75	*Unity Trust Bank Plc*	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk.	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	6.00	●Hill Samuel	6.00	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	6.00	*Meghraj Bank Ltd*	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	* Mount Credit Corp	6.00		
Cyprus Popular Bank	6.00	NatWestminster	5.75		
		●Rea Brothers	5.75		

● Members of London Investment Banking Association
* *In administration*

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
Treas 2pc 1996		219⅛	0.1	1,200	Mr16 Se16	7.3	1313
Conversion 10pc 1996		101⅞	-	3,409	My15 Nv15	3.5	1240
Treas 13¼pc 1997‡‡		104⅝	0.1	1,290	Jy22 Ja22	18.12	1302
Exch 10½pc 1997		103⅛	0.1	3,700	Au21 Fe21	12.2	1253
Treas Cnv 7pc 1997‡‡		101⅛	0.1	1,988	Fe6 Au6	26.1	4481
Treas 8¾pc 1997‡‡		103⅛	0.1	5,550	Mr1 Se1	21.2	1341
Exch 15pc 1997		111½	0.1	830	Ap27 Oc27	18.4	1269
Exch 9¾pc 1998		105⅛	0.1	3,550	Jy19 Ja19	13.12	1273
Treas 7¼pc 1998‡‡		101⅛	0.2	8,150	Se30 Mr30	21.3	1788
Treas 6¾pc 1995-98‡‡		100⅛	0.1	1,200	My1 My1	22.4	1331
Treas 15½pc '98‡‡		118⅞	-	935	Mr30 Se30	21.3	1308
Exch 12pc 1998		111⅜	-	3,909	My20 Nv20	9.5	1259
Treas 9½pc 1999‡‡		106⅛	0.1	1,900	Jy15 Ja15	11.12	1347
Treas Fltg Rate 1999		99⅞	-	5,700	MrJuSeDe	31.5	4945
Exch 12¼pc 1999		113⅛	-	3,050	Se26 Mr26	15.3	1264
Treas 10½pc 1999		108⅛	-	1,252	Nv19 My19	9.5	1286
Treas 6pc 1999‡‡		97⅛	-	6,950	Fe10 Au10	1.2	3635
Conversion 10¼pc 1999		109⅛	-.1	1,798	My22 Nv22	13.5	1242
Conv 9pc 2000‡‡		105½	-	5,358	Se3 Mr3	22.2	1244
Treas 13pc 2000		119⅞	-.1	3,171	Ja14 Jy14	8.12	1298
Treas 14pc 1998-1		113⅛	-	970	Nv22 My22	13.5	1306
Treas 8pc 2000‡‡		102⅛	-.1	7,800	Ja7 De7	29.5	4948
Treas 10pc 2001		109⅜	-	4,406	Au26 Fe26	15.2	1280
Five to Fifteen Years							
Treas 7pc 2001‡‡		97⅞	-	10,750	My6 Nv6	25.4	3031
Treas 9¾pc 2002		108⅞	0.1	6,527	Fe27 Au27	16.2	1349
Treas 8pc 2003‡‡		101	-	8,600	Jn10 Ja1	30.5	2010
Treas 10pc 2003		111⅞	-	2,503	Mr8 Se8	28.2	1281
Treas 11½pc 2001-4		115	-.1	1,620	Se19 Mr19	8.3	1290
Funding 3½pc 1999-4		80⅞	1.1	543	Ja14 Jy14	8.12	1274
Conversion 9½pc 2004		108⅝	-.1	3,412	Ap25 Oc25	16.4	1246
Treas 6¾pc 2004‡‡		92¼	-.2	6,500	My26 Nv26	16.5	3541
Conv 9½pc 2005		108⅞	-.2	4,842	Oc18 Ap18	8.4	1247
Treas 12½pc 2003-5		124⅞	-.1	2,200	My21 Nv21	10.5	1295
Treas 8½pc 2005‡‡		102¼	-.2	8,900	Ja7 De7	29.5	4846
Treas 7½pc 2006‡‡		96⅞	-.2	9,000	Ja7 De7	29.5	1148
Treas 7¾pc 2006‡‡		97⅛	-.2	3,800	Mr8 Se8	28.2	2300
Treas 8pc 2002-6‡‡		98⅛	0.1	2,000	Ap5 Oc5	27.3	1334
Treas 11¾pc 2003-7		119⅛	-	3,150	Jy22 Ja22	18.12	1293
Treas 8½pc 2007‡‡		102⅛	-.2	7,397	Ja16 Jy16	11.12	1339
Treas 13½pc 2004-8		131⅛	-.1	1,250	Se26 Mr26	15.3	1301
Treas 9pc 2008‡‡		105⅞	-.1	5,621	Ap13 Oc13	2.4	1343
Treas 8pc 2009		97⅞	-.4	3,450	Mr25 Se25	14.3	1336
Treas 6 1/4pc 2010		82⅞	-.2	4,750	My25 Nv25	16.5	4832
Over Fifteen Years							
Conv 9pc Ln 2011‡‡		105⅛	-.3	5,273	Jy12 Jy12	8.12	1245
Treas 9pc 2012‡‡		105⅞	-.3	5,360	Fe6 Au6	28.1	1701
Treas 5½pc 2008-12‡‡		78⅞	-.4	1,000	Mr10 Se10	11.3	1330
Treas 8pc 2013‡‡		96⅞	-.4	6,100	Mr27 Se27	18.3	2229
Treas 7¾pc 2012-15‡‡		94	-.6	800	Jy26 Ja26	20.12	1332
Treas 8pc 2015		96⅛	-.4	8,500	Ja7 De7	29.5	4892
Treas 8¾pc 2017‡‡		103⅛	-.4	7,550	Fe25 Au25	15.2	1982
Exch 12pc 2013-17		131⅞	-.4	1,000	Ja12 De12	3.6	1260
Treas 8pc 2021		96	-.5	6,000	Ja7 De7	29.5	-
Undated							
Consols 4pc		47	-1.2	359	Fe1 Au1	22.12	1239
War Loan 3½pc‡‡		42⅛	0.3	1,909	Ja1 De1	17.5	1352
Conv 3½pc '61 Aft		58⅞	-.8	115	Ap1 Oc1	21.3	1243
Treas 3pc '66 Aft		35	-2.4	56	Ap5 Oc5	27.3	1324
Consols 2½pc		30⅛	-2.6	276	5JaApJyOc	27.3	1239
Treas. 2½pc		29⅞	-1.9	475	Ap1 Oc1	21.3	1315
Index-Linked	(b)						
4⅝pc '98‡‡	(135.6)	113⅛	-	800	Ap27 Oc27	18.4	1753
2½pc '01	(78.3)	178⅞	-.1	1,850	Mr24 Se24	14.3	1316
2½pc '03	(78.8)	173⅞	-.2	1,800	My20 Nv20	9.5	1317
4⅜pc '04‡‡	(135.6)	113⅞	-.1	1,150	Ap21 Oc21	11.4	1255
2pc '06	(69.5)	181⅞	-.2	2,100	Ja19 Jy19	13.12	1314
2½pc '09	(78.8)	162⅞	-.2	2,200	My20 Nv20	9.5	1318
2½pc '11	(74.6)	167⅞	-.2	2,700	Fe23 Au23	14.2	1319
2½pc '13	(89.2)	137⅞	-.2	3,050	Fe16 Au16	7.2	1320
2½pc '16	(81.6)	146⅞	-.2	3,150	Ja26 Jy26	20.12	1321
2½pc '20	(83.0)	139⅛	-.3	3,150	Ap16 Oc16	3.4	1322
2½pc '24‡‡	(97.7)	115⅞	-.3	3,050	Ja17 Jy17	11.12	1323
4⅛pc '30‡‡	(135.1)	114⅛	-.3	1,300	Ja16 Jy22	18.12	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for October 1995: 149.8 and for May 1996: 152.9.

Other Fixed Interest

	Notes	Price £	Wk % +/-	Amnt £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009		112⅞	-	100	Mr24 Se24	3'93	-
B'ham 11½pc 2012		122	-	45	My15 Nv15	13.10	1837
Ireland Cap 8½pc '10		105⅛	-	303	Ap1 Oc1	-	1485
9pc Cap 1998		104	-	725	Ja30 Jy30	-	-
13pc '97-2		110⅞	-	315	Ap1 Oc1	8'93	1428
Hydro Quebec 15pc 2011		145⅛	-	40	My31 Nv30	10'93	-
Leeds 13½pc 2006		130⅛	-	40	Ap1 Oc1	8.9	3146
Liverpool 3½pc Irred		38½	-	5	1ApJyOcJa	1.9	-
LCC 3pc '20 Aft		33	-	26	1MrJuSeDe	1'95	-
Manchester 11½pc 2007		119	-	6	Ap25 Oc25	25.9	3275
Met. Wtr. 3pc 'B'		74½	-	25	Mr1 Se1	1.8	3361
N'wide Anglia 3⅞pc 2021		139⅛	-	60	Ja30 Jy30	23.6	3465
4⅛pc IL 2024		132⅛	-	50	Ap23 Fe23	17.7	-
Utd Mex States 16½pc 2008		129½	-	50	Mr1 Se1	8'93	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10	1996 High	1996 Low	Since comp. High	Since comp. Low
FT-SE 100	3753.60	3761.70	3760.20	3755.70	3728.90	3857.10	3639.50	3857.10	986.90
FT-SE Mid 250	4464.50	4468.00	4467.40	4462.30	4452.60	4588.60	4015.30	4588.60	1379.40
FT-SE Mid 250 ex ITs	4507.30	4511.50	4511.60	4507.00	4497.20	4607.40	4024.40	4607.40	1378.30
FT-SE-A 350	1898.20	1901.70	1904.60	1898.60	1887.30	1945.40	1816.60	1945.40	664.50
FT-SE SmallCap	2239.97	2240.27	2241.07	2239.41	2242.82	2244.36	1954.06	2244.36	1363.79
FT-SE SmallCap ex ITs	2240.69	2241.46	2242.84	2241.67	2246.94	2248.94	1931.83	2248.94	1363.79
FT-SE-A All-Share	1854.58	1857.80	1860.50	1855.10	1874.67	1924.17	1791.95	1924.17	61.92
FT-SE-A Fledgling	1275.72	1274.69	1275.27	1275.21	1276.42	1278.05	1108.94	1278.05	949.00
FT-SE Eurotrack 100	1682.14	1681.65	1694.47	1688.89	1696.82	1699.17	1504.40	1699.17	900.45
FT-SE Eurotrack 200	1722.32	1731.23	1733.86	1726.73	1724.40	1740.81	1584.49	1740.81	938.62
FT Ordinary	2782.70	2781.50	2787.50	2779.40	2768.40	2885.20	2696.70	2885.20	49.40
FT Govt Securities	92.04	92.04	92.27	92.44	92.41	96.34	91.57	127.40	49.18
FT Fixed Interest	111.68	111.66	111.58	111.64	111.91	115.23	110.60	133.87	50.53
FT Gold Mines	2085.93	2103.75	2098.46	2126.95	2171.51	2520.73	1968.57	2520.73	922.16

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GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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OFFSHORE INSURANCES

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BANKS, MERCHANT

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BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		2281½	—	0545c	Φ	May Oct	3'93	—
Barlow	♣†	£7⅞	8.3	081c	—	Jan Jul	11.12	—
Gold Flds Prop R		1342	0.8	069c	1.5	Mar Sep	25.2	—
NK Props		75	—	063.9c	—	Mar Sep	1.9	—
SASOL	♥	882	4.3	078c	—	Oct	9'93	—
SA Brews		£19¼xd	-3	0200c	Φ	Jul Dec	3.6	—
Standard Bank	□	£28¼	5.6	0284c	3.1	Sep Mar	—	—
Tiger Oats	†	810xd	4.0	0114c	3.0	Jan Jul	10.8	—
Tongaat-Hulett		890xd	—	0130c	Φ	Jan Jun	20.5	—

GUIDE TO LONDON SHARE SERVICE

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Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✢ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend, cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. e Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; x£ ex capital distribution

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4 pm close June 14

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
23¾	19⅛	AAR	0.48	2.4	22	231	20⅞	20⅛	20¼	-½
46⅛	36⅞	AMP	1.00	2.5	19	1926	40	39⅝	39¾	-½
97½	88	AMR			23	2897	94¼	93	93¼	-¾
50½	37⅞	ASA	1.80	4.4	27	825	41⅞	40¾	40⅞	-¼
44¾	38⅛	AbbtL	0.96	2.2	19	5782	43½	42¾	42⅞	-¼
17¼	13¼	Abitibi Pr	0.40	3.0	6	83	13½	13⅛	13½	+⅛
39¾	27	ACM Ind	0.70	1.9	19	128	37¾	37½	37⅝	-⅛
17⅞	13⅞	Acptacele			48	59	17⅝	17½	17½	-¼
50⅞	37¾	ACE Ltd	0.56	1.2	10	1049	45	44⅝	44⅞	+¼
9⅞	9⅛	ACM Gvt In x	0.90	9.2	8	58	9¾	9⅝	9¾	
7⅞	6⅝	ACM GvOpp x	0.57	8.3		78	6⅞	6¾	6⅞	+⅛
7¼	6	ACM Gvt Sp x	0.66	11.0		686	6¼	d6	6	-¼
9⅛	8¼	ACM Gvt Sc x	0.90	10.7		243	8½	8⅜	8⅜	-⅛
9½	8¾	ACM Man x	0.90	10.1		193	8⅞	8⅞	8⅞	
30¾	18½	AcmeClv	0.52	1.7	7	100	29¾	29¼	29¾	-⅛
13⅞	8⅛	Acme Elect			54	806	10	9½	9⅞	-¼
32½	27¾	Acordia	0.80	2.5	19	6	31½	31½	31½	
21⅝	12	Acuson			77	223	17⅜	17⅛	17⅛	-⅜
19½	16⅞	Adams Expr	1.56	8.6	0	256	18⅛	18¼	18¼	
21¼	16⅛	Adwidc			6	12814	16¾	d16⅛	16¼	-⅝
11⅛	8½	Advest Grp	0.16	1.5	7	62	10⅝	10⅝	10⅝	
26⅛	9⅛	Advo Inc	0.10	1.0	57	124	10½	10⅜	10⅜	-⅛
50⅜	41⅛	Aegon	1.19	2.6	14	33	46¾	45⅞	46½	-⅞
6¾	3½	Aerflx			4	738	8⅝	8⅜	8⅜	-⅛
78¾	65⅞	AetnaL	2.76	3.8	19	6578	73⅜	72⅝	73¼	+½
33	28¾	Aflac	0.40	1.4	12	1705	29¼	28½	28½	-⅛
20⅜	17⅛	AGL Res	1.08	6.1	15	386	17⅝	17¼	17⅜	+¼
27⅜	21¼	Ahmanson	0.88	3.3	7	2036	26¾	26½	26⅝	
60⅞	50⅞	AirPrC	1.10	1.9	15	1050	58	57¼	57¾	-¼
28⅞	23½	Airbas Frt	0.30	1.2	23	261	26	25⅝	25⅝	-⅜
22½	15½	Airgas Inc			33	2280	20¼	20	20⅛	+⅛
18⅞	15	Airlease	1.80	10.6	10	29	17	16⅞	17	-⅛
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4 pm close June 14

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
20⅞	13⅛	SclAtl	0.06	0.4	41	1123	16⅝	16⅛	16¼	-¼
21	17	Scotman	0.10	0.5	12	46	20⅞	20¼	20⅞	+⅛
45¾	38½	Scripps	0.52	1.2	28	1049	45⅛	45	45	-¼
18⅛	14½	ScudderNAsF	0.02	0.1		193	14¾	d14½	14¾	
12½	11	ScudderNEuF	0.16	1.3		81	12⅜	12¼	12¼	
20½	16	SeaCntB	0.70	3.5	2	47	20	19⅞	20	
16	15	SeaCt.4625	1.46	9.6		2	15¼	15¼	15¼	
67¾	44¾	S'gate				1818670	48⅞	47¼	48	-¼
38⅜	31¾	Seagrm x	0.60	1.8	23	2527	34¼	33⅝	33¾	-½
24⅝	17⅛	Seagull En			15	2527	23⅛	22⅝	23	+⅛
38⅛	26	Sealed Air			26	276	35⅛	35	35⅛	
53⅞	38¼	SearsR	0.92	1.8	14	6101	51⅞	50⅞	51⅛	-⅜
22⅜	19¼	SecCapSBI	1.24	5.5	22	1379	u22⅝	22⅛	22⅜	+¼
13	11⅞	Seligm Sel x	0.84	6.6		60	12⅜	12½	12⅜	+¼
23⅜	13⅝	Sensormat	0.22	1.3	14	1902	17⅞	17	17⅛	-⅝
42½	29½	SequaA	0.60	1.4	110	32	42⅜	42	42	-⅜
46	38	SequaB	0.50	1.1	121	5	046	46	46	
60¼	38⅞	SercCp	0.48	0.8	31	4067	59⅜	59⅛	59¼	-¼
33¾	28⅛	SvMstr	1.02	3.1	15	118	33⅝	33⅜	33⅜	-⅛
6¼	4½	ServMerch			12	1490	6⅛	5⅞	6	-⅛
48¼	28½	SGSThm			8	1020	39⅜	38⅝	39	-¼
18⅛	10⅝	Shaw Ind	0.30	2.2	40	1087	13⅞	13⅜	13⅜	-⅜
12⅜	10⅝	Shelby Wll	0.29	2.5	14	29	11⅝	11⅜	11⅜	-¼
88⅛	76⅝	ShellTr	3.26	3.8	17	1197	87	86¼	86½	-⅞
47	39	ShrW	0.70	1.6	18	666	43¼	42⅞	43⅛	-⅛

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Telekurs

FT Free Annual Reports Service

NASDAQ NATIONAL MARKET

4 pm close June 14

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AMEX PRICES

4 pm close June 14

FT GUIDE TO THE WEEK

MONDAY 17

US sanctions on China

The deadline falls for US-imposed sanctions against China over its abuse of intellectual property rights. Washington, which was still trying to reach a peace agreement as the deadline approached, has threatened to impose punitive tariffs on $2bn (£1.3bn) of Chinese imports, including textiles, unless Beijing complies with demands that it take sterner measures to crack down on pirate producers of compact discs, computer software and audio-visual material. China has vowed to retaliate by imposing counter-sanctions on US imports.

Israeli parliament convenes

Israel's newly elected parliament convenes for its opening session. The 120 members were elected in May when Benjamin Netanyahu, the prime minister-elect of the rightwing Likud party, upset Shimon Peres, the incumbent Labour prime minister, in a wafer-thin victory. Mr Netanyahu, entangled in coalition negotiations, is scrabbling to present a government at today's session. Elected on a platform opposing Mr Peres' peace policies with the Palestinians, Mr Netanyahu has since signalled a willingness to continue the process. His ministerial appointments are awaited as an indication of whether Israel will be steered towards co-operation or confrontation with its Arab neighbours.

EU foreign ministers in Rome

European Union foreign ministers meet in Rome to prepare for the European summit in Florence on Friday. Ministers will be seeking a resolution to the beef crisis. The UK wants a political signal in favour of a phased lifting of the ban on British beef exports in return for ending its non-cooperation.

Berlin digital media fair

Hundreds of companies will be exhibiting at the digital media world exhibition in Berlin. Germany's media and television companies are feverishly manoeuvring for alliances to launch digital pay-TV and tap the market for interactive services – such as home banking and shopping (to June 31).

EU/US explore "open skies"

EU transport ministers in Luxembourg will attempt to agree a mandate for opening negotiations between the EU and the US on an "open skies" agreement. Such an agreement would create a "joint civil aviation area" between the US and EU in which companies from both sides could compete on the basis of equivalent rules. The talks come days after British Airways and American Airlines concluded an agreement to create the world's most powerful airline alliance. Ministers will also discuss proposals for a "single European airspace" in air traffic control.

Copy cats: America is on the verge of invoking its threat of sanctions against China if Beijing fails to crack down on pirate versions of American products

Antiques fair

Britain's grandest antiques event, the Grosvenor House Art and Antiques Fair, continues all week in Park Lane, London. About 90 dealers are offering works of art ranging from prints for under £100 to more than £1m for paintings by Brueghel and Avercamp. The fair also includes beautifully presented furniture, silver, decorative works of art, clocks and books.

FT Survey

European Financial Results.

Public holidays

Bermuda, Colombia, Gibraltar, Hong Kong, Iceland, Malaysia, South Africa.

TUESDAY 18

Cyprus president in US

Glafkos Clerides, president of Cyprus, visits Bill Clinton, the US president. This marks a fresh international effort to reunite the Greek and Turkish communities as a loose federation – with the UN acting as a mediator to find "common ground" for Mr Clerides to resume direct talks with Rauf Denktash, the Turkish Cypriot leader. Cyprus's EU application has given new impetus to finding a solution for the island, which has been divided since Turkey's invasion in 1974.

UK beef proposal discussed

MEPs gather in Strasbourg for a plenary session of the European parliament – but attention may be diverted by the European commissioners, who will discuss the five-point framework document from the UK on lifting the ban on British beef exports. The outcome could determine whether agreement is possible at the EU heads of government meeting in Florence. Parliament, meanwhile, will vote on three reports on monetary union.

Blair faces German industry

Tony Blair, the leader of the UK's opposition Labour party, addresses the annual meeting of the federal association of German industry.

Horse racing

Royal Ascot (to June 21).

Public holiday

Seychelles.

WEDNESDAY 19

US grilled on petrol imports

The US is expected to tell the World Trade Organisation in Geneva how it will implement a WTO ruling that its rules on cleaner petrol unfairly discriminate against imports from Venezuela and Brazil. The US has "a reasonable period of time" to remove the discrimination, due to end in any event in 1998. Also on the agenda is a US complaint against Canada's alleged discriminatory treatment of foreign magazines.

Bangladeshis return to polls

Repolling today in 27 constituencies will seal the outcome of Bangladesh's seventh parliamentary elections. Polling for the 300 contested seats last week gave the Awami League 133 seats – 29 ahead of the Bangladesh Nationalist Party led by Khaleda Zia, the former prime minister. Smaller parties may determine who governs, with the Awami League looking set to fall short of the requisite majority. Repolling was ordered by the election commission after finding "irregularities" in 123 polling stations. Voting was otherwise deemed generally fair and free.

MEPs review IGC progress

MEPs will hear reports from the Council of Ministers and the European Commission on progress at the Intergovernmental Conference to review the Maastricht treaty, and consider the agenda for the Florence summit. They will also debate proposals to allow Norway and Iceland, non-EU members, to join the Schengen group of EU countries which has removed inter-border controls.

Golf

Evian Masters, Royal Evian, France (to June 22).

FT Surveys

Private Banking; Malaysia.

Public holidays

Algeria, Fiji, Trinidad, Uruguay.

THURSDAY 20

Crans-Montana forum opens

The annual Crans-Montana forum starts in the Swiss ski resort (to June 23). The forum kicks off with a meeting between Yassir Arafat, the president of the Palestinian Authority, and Shimon Peres, the former prime minister of Israel, and is followed by events featuring several central Asian and eastern European presidents. The agenda includes the Middle East peace process, regional economic co-operation, and politics and investment in central and eastern Europe.

EU near to energy deal

After six years of negotiations, EU energy ministers meeting in Luxembourg may finally agree on a plan to open the EU's electricity market to cross-border competition. A compromise plan agreed between France and Germany has been endorsed by Italy and hopes are high for its approval. Under the plan, about 22 per cent of the electricity market would be opened to competition initially, rising to about 32 per cent after six years.

Cricket

Second Test match, England v India, Lord's cricket ground, London (to June 24).

Golf

BMW International Open, Munich (to June 23).

FT Surveys

Swedish Banking; France.

Public holidays

Hong Kong, Macau, Taiwan.

FRIDAY 21

Arab leaders in Cairo

The first full Arab summit since 1990 opens in Cairo to discuss prospects for Middle East peace following the election of the rightwing Likud party in Israel (to June 23). Leaders of all 21 members of the Arab League have been invited – with the exception of Iraq, with which some Gulf states refuse to sit. The Arabs hope to hammer out a common position to encourage Benjamin Netanyahu, Israel's new prime minister, to continue the peace process with the Palestinians and bring Syria and Lebanon into the arena. However, inter-Arab rivalries are bound to emerge.

Beef taints EU summit

EU leaders meet in Rome for a two-day summit overshadowed by the beef crisis. The summit's chief theme will be employment. Jacques Santer, the president of the European Commission, is calling for a "pact of confidence" between employers, trade unions and governments to restore growth and jobs. On Saturday, EU leaders will meet their counterparts from central and east European countries, as well as Cyprus and Malta, which hope to join the EU around 2002.

Pope visits Germany

Pope John Paul II makes his first visit to Germany since it was reunited in 1990. About 58m Germans are split nearly equally between the Catholic and Protestant churches. On Sunday, 150,000 people are expected to attend mass at the Olympic stadium in Berlin (to June 23).

Gymnastics

World championships, Budapest (to June 23).

FT Survey

London Business Property.

Public holidays

Finland, Sweden, Togo.

SATURDAY 22

Japan/South Korea summit

Japan and South Korea hold a rare summit after the announcement that the 2002 World Cup soccer finals will be shared between them. Ryutaro Hashimoto, the Japanese prime minister, will meet Kim Young-sam, the South Korean president, on the island of Cheju in South Korea (to June 23). The meeting is to discuss bilateral issues such as food aid to North Korea, fishing rights and sport.

Swimming

Masters world championships, Sheffield, England (to July 2).

Public holidays

Croatia, Finland, Sweden.

SUNDAY 23

Chile poised for Mercosur

The World Economic Forum is staging a three-day Mercosur summit in Buenos Aires attended by 500 business and political leaders as well as the presidents of Argentina, Brazil, Paraguay and Uruguay. A central issue will be Chile's expected incorporation into the nascent customs union. Chile, which also has aspirations to join the North American Free Trade Agreement and whose uniform external tariff is incompatible with Mercosur's, will not become a full member.

Chad presidential elections

Idriss Deby, the president of Chad in central Africa, will stand against Abdelkader Wadal Kamougue, the main opposition candidate, in the second round of the country's first presidential election. Mr Deby failed to win a clear majority in the first round. Opposition candidates say the voting was flawed but foreign observers have given it a clean bill of health.

Jiang Zemin leaves for Spain

Jiang Zemin, the president of China, leaves for state visits to Spain, Norway, Romania, Uzbekistan, Kyrgyzstan and Kazakhstan. It will be Mr Jiang's first visit to the six countries (to July 6).

Compiled by Simon Strong.
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ECONOMIC DIARY

Other economic news

Monday: The Bundesbank releases its latest monthly report. Details of Tokyo department store sales in May will also be released.

Tuesday: Economic growth is expected to have accelerated in Japan during the first quarter of the year. UK public sector borrowing figures for May will indicate whether an enduring recovery in tax revenues is under way. US housing starts are thought to have edged lower last month.

Wednesday: Minutes of the May 8 meeting between the chancellor and governor of the Bank of England are released, while UK retail sales are predicted to have accelerated last month. Swedish factory production growth is thought to have slowed in April.

Thursday: The monetary policy council of the Bank of France meets, as does its Swedish equivalent. The Dutch trade balance is thought to have narrowed in April. The US trade balance is predicted to have been stable last month, but the current account deficit may have widened in the first quarter of the year.

Friday: Growth in French industrial production is thought to have slowed sharply in April.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	May Tokyo dept store sales**	-	1.9%
June 17				
Tues	US	May housing starts	1.48m	1.52m
June 18	US	May building permits	-	1.48m
	US	1st quarter productivity revenue	-	2.6%
	Japan	1st quarter GDP†	4.6%	3.6%
	Japan	June wh'sale price ind (1st 10 days)*		-0.1%
	Japan	May money supply (M2+CD)**	3.0%	3.0%
	Japan	May broad liquidity**		3.4%
	UK	May pub sect borr'ing req	£2.9bn	£3.3bn
	Italy	April producer price index**	3.0%	3.6%
	Italy	April wholesale price index**	4.3%	5.6%
	Sweden	April current account (SKr)	4.1bn	4.6bn
Wed	UK	May retail sales*	0.4%	0.2%
June 19	UK	May retail sales**	2.5%	2.2%
	Nth'land	April trade balance (Fl)	-	4.3bn
	Sweden	April retail sales	-0.5%	-1.6%
	Sweden	April industrial production**	0.2%	0.6%
Thur	UK	May M4*	0.7%	0.6%
June 20	UK	May M4**	9.8%	10.0%
	UK	May M4 lending (£)	5.0bn	4.2bn
	UK	May b'ld soc net new com'tmnts	3.6bn	3.4bn
	UK	May motor vehicle production	-	n/a
	US	April trade, goods and services	-$8.7bn	-$8.9bn
	US	April goods & services export	$69.5bn	$68.8bn
Thurs	US	April goods & services import	[illegible]	[illegible]
June 20	US	1st quarter current account	[illegible]	[illegible]
	Canada	April merchandise exports†	1.5%	[illegible]
	Canada	April merchandise imports†	2.0%	[illegible]
	Canada	April merchandise trade surplus	[illegible]	[illegible]
	Canada	April retail sales†	0.1%	[illegible]
	Canada	May dept store sales**	[illegible]	[illegible]
Fri	US	May export price index	[illegible]	[illegible]
June 21	US	May import price index	[illegible]	[illegible]
	US	May Treasury budget	-$50.0bn	[illegible]
	Japan	Apr o'all pers consump expend**	0.5%	[illegible]
	Japan	Apr pers consump expend (w'krs)**	-	[illegible]
	Japan	April income (workers)**	-	0.0%
	France	Apr industrial production†	0.2%	0.8%
	France	Apr indust production, ex energy	0.4%	[illegible]
	Canada	Apr manufacturing new orders	1.5%	[illegible]
	Canada	Apr manufacturing shipments*	1.3%	[illegible]
During the week...				
	Germany	May wholesale price index*	0.1%	0.2%
	Germany	May producer price index, west*	0.1%	0.1%
	Germany	May producer price index, west**	-0.6%	[illegible]
	Germany	May pr'd price ind, pan-Germany*	0.1%	[illegible]
	Germany	May pr'd price ind, pan-Germany**	-0.4%	[illegible]
	Italy	Apr balance of payments (L)	-	[illegible] trillion

*month on month, **year on year, † seas/adj. *Statistics, courtesy MMS International.*

MONDAY PRIZE CROSSWORD

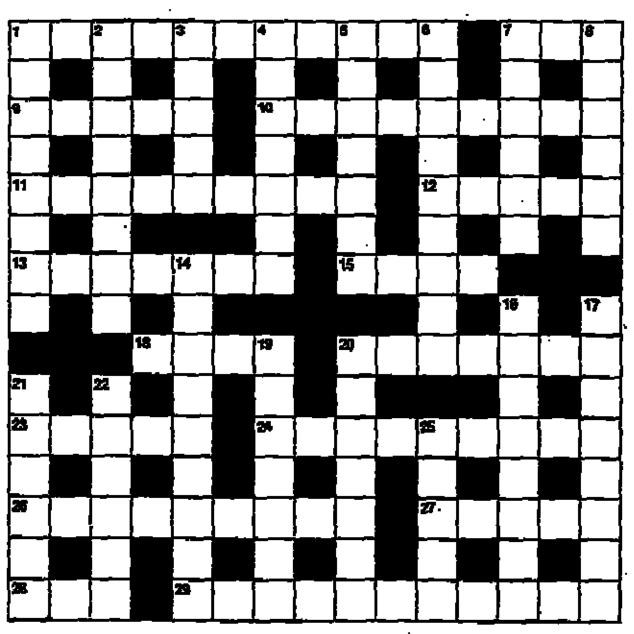
No.9,096 Set by CINEPHILE

ACROSS

1 Wear for the mounted, as an old Yorkshire custom (6,5)
7, 15 Gather a pass, not before time (7)
9 Frightened, we are swallowed by a fish (5)
10 Tailless fish gets support from aircraft (9)
11 Top of the wave in form of spout (9)
12 Fibre from New York and London? (5)
13 "Put out the light, and then put out the light" (5,2)
15 See 7 across
18 Saintly American composer? (4)
20 Swan with a cough? (7)
23 Dark as a bed in Paris (5)
24 Boxer's ability to telephone a ship (4-5)
26 Acrobatic performance by wretch fuddled with ale (9)
27, 28 Road to Orkney, fourth first, with third diminished (5,3)
29 Hawaiian between boards? (11)

DOWN

1 Resort for rescuer worried about nothing (8)
2 County, river and ancient city in heavy rain (8)
3 Lowest piece of action, a dirty trick (5)
4 Sound horn when about to reverse frequently at high speed (7)
5 Where wounded albatross, head and tail missing, could be straightened out? (7)
6 Companies put together (3,3,3)
7 Clot! Doctor turned up in wrong clue (6)
8 Beastly flower (English), with a bit of luck on a tree (6)
14 Ban on the west entering stabilisers in the Potteries (4,5)
16 Badly hung maps reveal moss (8)
17 Taking in bits of religion and theology is automatic in church members (8)
19 Operator to move suddenly forward (7)
20 Rattigan's boy acquires base (7)
21 Czech to call Czech, say? (6)
22 A bit of snow, start of life among the warmly clad? (6)
25 Funny note by Greek character, mostly (5)



A prize of a Pelikan New Classic 360 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday June 27, marked Monday Crossword 9,096 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday July 1. Please allow 28 days for delivery of prizes.

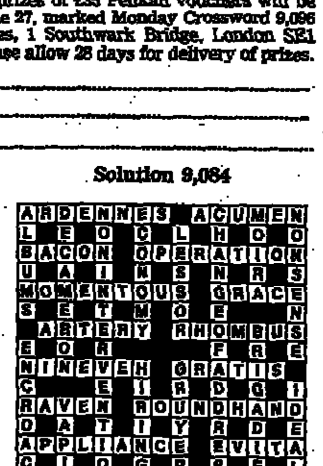
Name.................................

Address.................................

Winners 9,084

M. Wilson, London N17
B.J. Clark, Biggin Hill, Kent
A. and M. Jones, Holmfirth, Huddersfield
A.M. McAllister, Maryhill, Glasgow
Mrs A.G. Olsen, Great Brington, Northampton
P Read, Lysaker, Norway

Solution 9,084



JOTTER PAD

THIS WEEK

Pocket battleship rams ivory tower

Happy birthday. Life is starting anew for Claus Dieter Ehlermann, the one-time top trust-busting bureaucrat and European Commission spokesman, who was 65 on Saturday.

One year into retirement, Ehlermann has landed three jobs. He is a senior research fellow at the Centre for European Policy Studies in Brussels, a member of the appeals panel of the World Trade Organisation in Geneva, and a professor at the legal department of the European University Institute in Florence. Built like a pocket battleship, Ehlermann is an impressible character with a cackling laugh, infectious enthusiasm and a talent for self-promotion which makes him one of life's natural movers and shakers. His arrival at the European University Institute has sent a shock through the system.

The EUI has long enjoyed a reputation as a sleepy retreat for academics in search of pasta, chianti and something short of the 40-hour working week. The campus setting does not help: a stunning expanse of historic buildings, including a former monastery, tucked into the hills overlooking Florence. There can be few more beautiful spots in Europe, as I discovered during a two-month visiting fellowship this spring.

Ehlermann's arrival is partly a story about a cultural clash between the Brussels practitioner and the ivory tower professors. It is the kind of non-meeting of minds most journalists understand when they first pick up a book on neo-functionalist integration written by an American academic who has barely set foot inside the Council of Ministers.

But as Ehlermann's numerous supporters would argue, his arrival shows how fresh blood is helping the EUI to adapt to the outside world. Other forces for change are Antonio Zanardi Landi, the energetic new secretary-general for

DATELINE

Brussels: The European University Institute is experiencing a culture clash as former bureaucrats and others take up key posts, writes **Lionel Barber**

administration, and Yves Mény, head of the in-house research body known as the Robert Schuman Centre. In a sense, what is happening at the EUI is a metaphor for the European Union itself as it struggles to make itself relevant to ordinary people.

The idea of setting up an institution to extend European integration into the area of teaching and research was first mooted in 1955 at the Messina conference which laid the groundwork for the Treaty of Rome. But taking decisions is never easy for Europe's bureaucrats, and the idea was only approved in 1969 at the Hague summit. Three years of negotiations followed, and eventually an unwieldy name – European University Institute – was settled on.

The name was a classic Euro-compromise. France objected to "European University" because it implied supranational poaching of undergraduates. The new institution would cater for post-graduates only. Approved subjects were history and civilisation, economics, law and political and social science.

The EUI opened in the autumn of 1976. Its first intake was 35 students a year. Today, its annual intake has risen to 100 research students. In addition, there are some 20 annual post-doctoral fellows. To spend an hour in the canteen listening to students shifting easily between English, French, German and Italian is to imagine European civil society in the making.

Yet as one of the professors explained to me over lunch, the EUI has always suffered a bit of an identity problem. Two of its first three presidents were Max Kohnstamm, an aide to Jean Monnet, one of the architects of the European Community, and Emile Nöel, the *éminence grise* who served from 1968-87 as secretary-general of the European Commission. Both were intimately involved in the creation of the European Community and dedicated to what has become known loosely as the "European ideal". Yet visiting academics who took up limited eight-year posts were reluctant to confine their interests to Europe. There was a whole world waiting to be discovered.

The "re-Europeanisation" of the EUI took place in September 1993 with the creation of the Robert Schuman Centre. Mény, its first head, is a widely travelled professor of law and politics whose latest work is on corruption in France and western democracies. Under his direction the centre has become the prime forum for intellectual discussion, but also a prolific producer of working papers on subjects ranging from monetary union and the European Court of Justice to European business in Japan.

The Schuman Centre is slowly expanding its activities. It will soon take on a further half-dozen or more professors, and on Thursday Romani Prodi, the new left-wing Italian prime minister, will visit the centre as part of the EUI's 20th anniversary celebrations, ahead of the European summit in Florence on Friday and Saturday. The centre has also created a Jean Monnet chair, inviting academics from Belgrade, California and Japan to take it up, as well as political figures such as Elisabeth Guigou, the French socialist MEP, and Giuliano Amato, the former Italian prime minister who now runs the Italian anti-trust authority and is a part-time professor on campus.

Meanwhile, Ehlermann has ensconced himself in an office in the centre and is quietly orchestrating a campaign for the creation of a new European anti-trust authority in the name of efficiency and legitimacy in the EU.

The irony is delicious. If successful, his campaign would lead to a partial removal of the discretionary powers over merger control held by his former bosses at the European Commission ever since the Treaty of Rome. The gamekeeper has turned poacher.

PEOPLE

North star seeks another way to shine

After a tough six months, Nokia chief Jorma Ollila is putting his faith in data transmission. By **Hugh Carnegy**

Not many months ago, Jorma Ollila was fêted far beyond the shores of his native Finland for transforming Nokia from a sprawling conglomerate once best known for making tyres and toilet paper into one of the world's top performers in the rapidly expanding business of mobile telephony.

Today, Nokia's chief executive is battling to put the company back on track after a nasty six months during which its once meteoric profits growth has stalled and the company at one point saw a 50 per cent crash in its share price.

The bespectacled, affable Ollila compounded his problems with a couple of uncharacteristic gaffes. The day before Nokia issued a confusingly opaque profits warning last December, Ollila, on a visit to Stockholm, was quoted as making upbeat comments about the US market that seemed hard to square with what subsequently emerged. Then, following the profits warning, the normally voluble Ollila was slow to make himself available for explanations, by which time many investors had already drawn their own conclusions and sold. "Ollila l[illegible]t his balance," says a Helsinki-based observer.

A colleague admits Nokia's leadership had to some extent been blinded by success. "However much we tried to be very careful not to be complacent, there were some symptoms of that," he admits.

Ollila, a vigorous tennis player, himself acknowledges that the past few months have been a time of "tremendous stress", but insists: "I get energised when times are difficult." He is adamant that Nokia is on the path to recovery. "There is tremendous confidence in the organisation about what we can do in the marketplace," he says.

The company has yet to emerge from its difficulties. Profits in the first quarter fell from FM1.35bn (£186m) to FM399m and will be down again on last year at the six-month stage because of setbacks in the mobile handset division, the biggest Nokia unit and the engine of its spectacular growth over the past four years. The share price, trading around FM190, is still far from its peak of FM340 last September. Rumours of takeover or merger bids – apparently unfounded – have swirled around the company.

Perhaps tempered by the sobering experience of the last few months, Ollila has warned that last year's extravagant profit margins, approaching 15 per cent of sales, are a thing of the past. But he now forecasts sales growth of more than 30 per cent for the year and improved profits performance in the second half. "We are moving very quickly to a situation where not only will we solve the mobile telephone problems in the first six months, but we will also see the impact of new products in the top and bottom line," he says.

Thousands – perhaps millions – of Ollila's compatriots are hoping that this confidence will prove justified. Since Ollila, a former banker and London School of Economics graduate, took over as Nokia chief executive in 1992, his transformation of the company has become a source of intense pride in Finland. With a market share of more than 20 per cent, Nokia is the world's second largest producer of mobile telephones after Motorola.

Members of Ollila's team of young Finnish executives – at 45 he is one of the oldest of the top managers – have become dynamic and important symbols of international success at a time when Finland is still recovering from a crippling recession: 17 per cent of the workforce, and 30 per cent of those under 25, are out of work.

Nokia will strive with all its might to recover its former star status for the simple reason that the world's mobile telephone markets are still expanding at a remarkable rate. The number of mobile – or cellular – phone subscribers is set to grow by 50 per cent this year from the 85m who were hooked up by the end of 1995. With penetration rates in most countries still well below 20 per cent of the population, the potential remains vast.

The problem Nokia faces is to manage this growth in demand while coping with mounting competition and shrinking prices, especially for handsets, which have eaten into profit margins.

The internal problems which tripped up Nokia's handsets operation were two-fold. It ran into bottlenecks in component supply, which meant it could not keep up with demand in some markets. Paradoxically, at the same time it overestimated demand in the US, where sales growth slowed last year, and ended up with over-capacity in its US production. As prices fell, Nokia found itself with excess stocks of some expensive components.

Ollila says excess inventory is being sold off and component supply streamlined. But with 40 products manufactured in six factories for sale in 130 countries, the logistical challenge is enormous.

Nokia's great strength has been its high return on research and development investment, particularly its early commitment to the GSM digital standard that is the fastest growing cellular system in the world. It has spent half as much on R&D as a proportion of its sales as Ericsson, its Swedish rival, helping it until recently to achieve much bigger profit margins. Ollila favours having a tightly focused R&D programme where resources are concentrated on key product areas. This maximises returns – if the products are successful.

Jorma Ollila: "I get energised when times are difficult"

Much is therefore riding on Nokia's strategy of investing heavily in mobile data transmission. To date, most cellular traffic has been voice-calls. But Nokia believes that by 2000 as much as 50 per cent of cellular traffic will be data transmission in the form of short messages, faxes, long files and e-mail and Internet connections. Nokia will continue to produce a full range of phones for a market that is fast fragmenting, because high production volumes are vital to margins. But it will also look to high added-value products, especially in data transmission, to enhance returns.

In August Nokia will launch the Nokia 9000, a new "personal communicator" device. Perhaps the most ambitious cellular product yet produced, it combines a telephone, personal organiser, notepad and built-in messaging, e-mail and Internet connections all packaged in a handset only slightly bigger than an existing mobile phone.

After the past six months, Ollila badly needs to show that Nokia has judged the market correctly. Outwardly at least, his confidence appears barely dented. But investor confidence has been shaken: they will be watching warily for any sign that Ollila's team has made another wrong move.

NAMES IN THE NEWS

Zmeck rises to German digital pay-TV challenge

Gottfried Zmeck has come a long way from the Benedictine monastery in Melk, a majestic edifice perched high over the Danube in lower Austria, where he spent eight years as a school boarder, writes **Judy Dempsey in Bonn**.

Last week, Zmeck unveiled ambitious plans to shake up German television. As head of Digital Fernsehen 1 (DF1), owned by media mogul Leo Kirch, Zmeck will be responsible for the launch of Germany's first digital pay-TV service next month.

Zmeck and his colleagues are enormously excited about the challenge, even though the start-up costs will total DM1bn (£400m). If things go well, DF1 hopes to break even by the end of the decade. What particularly pleases the Kirch group is that it has beaten its arch rival, the giant Bertelsmann media and entertainments group, to the post.

Senior staff at Bertelsmann have often rubbished Kirch's digital pay-TV plans, saying the technology was not ready for an early launch. But Zmeck declined to get embroiled in the war of words about who would be first with digital TV. "Kirch does things differently," says Zmeck, 39, a chain-smoker and workaholic. "We are not big on public relations. We prefer just to get on with it."

Leo Kirch himself remains secretive. Zmeck, an Austrian-born journalist, is his front-man, over the past year defending every phase of DF1's development.

Since he joined the company in February 1989 after a stint as the London-based correspondent of ORF, Austria's state TV service, Zmeck has been unswervingly loyal to Kirch.

Despite the risks entailed in the digital pay-TV launch, – the heavy investment, and even the possibility that one day Kirch and Bertelsmann may be forced to agree on a single decoding box to prevent the market from splitting – Zmeck expresses no doubts about the sureness of Kirch's plans. Perhaps the early discipline of the Benedictines was made to order for someone now charting a costly voyage into cyberspace.

Williams to step down at Getty Trust

The J Paul Getty Trust, which manages the late oil tycoon's rich arts endowment, is looking for a new president, writes **Christopher Parkes in Los Angeles**. The incumbent, Harold M Williams, who this summer will lead the trust's staff to a new $800m (£523m) museum-cum-cultural centre atop a Los Angeles hill, is stepping down.

On the verge of completing the 14-year-old trust's grandest project to date – when the new Getty arts centre was first planned 10 years ago it was hoped that in time it would be seen as an "American Acropolis" – Williams says he plans to quit in early 1998.

While the centre, which straddles the ridges of the Santa Monica mountains hard by the San Diego freeway, is Williams' most visible achievement, another impressive legacy of his management is the trust's bank balance.

Williams, former dean at the UCLA graduate school of management, is credited with improving the value of the oil billionaire's bequest from $1.2bn in March 1982 to about $3.8bn now. Almost 40 years ago Getty himself remarked that "a billion dollars isn't what it used to be", but the great man would have been impressed by the way the Getty Trust, and the investment firms that manage its wealth, have made his money grow.

The scholarly Williams, who used to claim "I teach planning, I don't practise it", clearly picked up a thing or two in his last but one job: chairman of the Securities and Exchange Commission under President Jimmy Carter.

Robert Chote · Economics Notebook

How to isolate the racist employer

Simplistic economic theory gives false hope to Britain's ethnic minorities

Ethnic minorities form a small but growing proportion of Britain's 58m population. From 4 per cent in the late 1970s, their share rose to 5 per cent in the late 1980s and it should stabilise eventually at almost double that level.

As these relatively young communities come to be integrated more fully into the labour market, it has often been assumed that the economic disadvantage they suffer relative to the majority white population should gradually erode. But recent trends suggest not.

According to the annual General Household Survey, the labour market position of blacks deteriorated relative to that of whites between the 1970s and the 1980s. The difference between black and white wage levels rose from 7.3 to 12.1 per cent, while the difference between their unemployment rates rose from 2.6 to 10.9 percentage points.

And things may have got worse in the last few years. During the 1980s and early 1990s the unemployment rates of the ethnic minorities behaved "supercyclically", which is to say that they did worse than the rest of the population when the economy was doing badly but better when it was doing well.

Unemployment among whites fell by 42 per cent between 1984 and 1990 and then rose by 57 per cent during the recession; among ethnic minorities over the same periods the fall was 50 per cent and the increase 109 per cent. This pattern has broken down in the present recovery, however. Since its peak, unemployment has fallen by 22 per cent among whites but only 17 per cent among the minorities.

The net result is that by the autumn of 1995 the unemployment rate for ethnic minorities was almost two-and-a-half times as high as that for whites; in 1984 it was not even twice as high.

According to Swansea University's David Blackaby, and his colleagues, it is the changing trends in unemployment rather than earnings which are central*. This is because the blacks who lost their jobs in the 1980s had better earnings prospects than the whites who lost theirs: "It was the declining employment prospects of blacks that exacerbated the ethnic wage gap, rather than anything else".

Identifying the source of ethnic differences in labour market performance is no easy task. A typical approach is to look at the difference between black and white earnings levels and to work out to what extent they can be explained by differences in such factors as age, education, work experience, job description and type of employer. Any residual wage gap is assumed to be the result of "discrimination".

Nobel prizewinner Kenneth Arrow defined discrimination in this sense as "the valuation in the marketplace of personal characteristics of the worker that are unrelated to productivity". The major flaw with this approach – aside from the inevitable measurement difficulties – is that discrimination may also play an important part in determining people's productivity: perhaps by affecting their access to educational opportunities.

The analysis is further confused by the fact that differences between the circumstances of the various minority communities can be bigger than the difference between the ethnic minorities as a whole and the white population.

Ethnic minorities in the UK labour market

Unemployment rates of people aged 16 or over by ethnic group (%)

	Hourly earnings (£)	Employed	Unemployed	Inactive
White	7.44	58%	5%	37%
All ethnic minorities	6.82	50%	10%	40%
Black	6.92	53%	13%	34%
Indian	6.70	59%	8%	33%
Pakistani/Bangladeshi	5.38	32%	11%	57%
Other origins	7.70	53%	9%	38%

Source: Labour Force Survey, LFS, Employment Gazette

Nonetheless, it is clear from everyday experience that discrimination remains a pervasive influence. So what could or should be done?

Imagine that a racist employer would not take on ethnic minority workers because he believed them lazier, less intelligent or less dependable than their white counterparts. In the looking-glass world of simplistic economic theory, these attitudes would receive their just deserts. Enlightened employers would attract the best ethnic minority candidates, boosting their productivity and allowing them to undercut racist employers and drive them out of the market.

Howard Davies, the deputy governor of the Bank of England, therefore concluded in a recent speech to the Equal Opportunities Commission that one policy response should be to take a tougher attitude to monopolies, thereby edging the economy closer to the perfectly competitive theoretical ideal.

But while there are many good reasons to promote competition, this may not be one of them. The reason is that employers may be engaging in "statistical discrimination". Predicting a would-be employee's potential productivity is expensive, time-consuming and inherently uncertain. If an employer discerns that the productivity of whites is on average higher than that for blacks – say because of educational differences – then he or she may use race as a low-cost screening method.

This is clearly undesirable *ex post* if a high-quality black candidate is passed over in favour of a low-quality white. But in a world of incomplete information it may be an entirely rational way *ex ante* for an employer to maximise his profits. If that were the case, then tougher competition might actually encourage this discrimination.

This same uncertainty about individual productivity also makes it problematic simply to legislate against discrimination, because it is difficult to prove when it is taking place. From a libertarian perspective, one might also argue that – however distasteful it is to right-thinking people that employers, co-workers and customers should discriminate against ethnic minorities – that is not sufficient reason to legislate against it if it falls short of an incitement to racial hatred.

The best way to tackle racial disadvantage in the labour market may therefore be to concentrate on areas like education. Studies in the US have traditionally concluded that between 30 and 50 per cent of the black-white wage gap there is the result of discrimination. But Derek Neal of Chicago University and William Johnson of Virginia University argued last year that most of this residual in fact reflects a skill gap which can in turn be traced, at least in part, to observable differences in the family backgrounds and school environments of black and white children**.

In Britain the proportion of 16-24-year-olds from ethnic minorities in full-time education is already more than half as high again as the proportion of whites. Pressing home this advantage would probably be a more effective policy response than relying on competitive pressures or legalistic regulation.

**The Changing Distribution of Black and White Earnings and the Ethnic Wage Gap: Evidence for Britain, by D Blackaby et al, University of Wales, Swansea.*

***The Role of Pre-market Factors in Black-White Wage Differences, by D Neal and W Johnson. NBER working paper 5124.*

The White House is preaching the message that social responsibility is good for business, writes **Nancy Dunne**

Portrait of an American dilemma

Fel-Pro Incorporated, an automotive supply manufacturer in Skokie, Illinois offers perks most American workers could only contemplate in their dreams: generous salaries, profit-sharing, health insurance, subsidised child care, an in-house "wellness centre" and an eight-week summer camp for employees' children.

Every baby born in the "Fel-Pro family" of 2,600 workers receives a $1,000 (£650) savings bond and a pair of engraved baby shoes. On graduation from high school the child receives $100. If necessary the company will even pay 80 per cent of the cost of a tutor; if the child goes to college, he gets $3,500 in scholarship money each year.

Fel-Pro's roster of generous benefits – they cost about 70 cents per hour per employee – won it a featured role at a recent White House conference on "corporate citizenship".

Presided over by President Bill Clinton the conference was the culmination of an intense administration debate about how much government should push business to help address the needs of society. Can tax incentives and legislation serve a useful purpose, or is verbal cajolement the only acceptable approach?

With a hostile Republican Congress certain to scorn any of the president's interventionist instincts, Clinton has opted for using the White House as a "bully pulpit" to preach corporate values.

"I believe the power of example to change the behaviour of Americans is enormous," he told conference participants. "What I want to see us do is to elevate the good practices that are going on, show how they are consistent with making money and succeeding in the free enterprise system, and hope that we can reinforce the kind of conduct that so many of you have brought to bear in your own companies."

The issue of corporate citizenship – and how much responsibility companies should take to cure social ills – is increasingly preoccupying governments worldwide. In the US – where presidential hopeful Pat Buchanan raised the political ante in February's New Hampshire Republican primary with his attacks on "downsizing" – there has long been ambivalence about the role of corporations in society.

A recent Business Week poll, however, found that 95 per cent of Americans believe companies have responsibilities to their employees and their communities which goes beyond making profits.

Clinton first signalled his intention making corporate citizenship a political issue in his January 1996 State of the Union address, calling on employers to provide skills training for their workers and "share the benefits of the good years as well as the burdens of the bad ones". His exhortations were generally well received, but his economic advisers were divided over the way ahead – whether business should be forced to act responsively, lured by tax incentives or simply cajoled.

This internal debate – which has pitted US Labour Secretary Robert Reich against Treasury Secretary Robert Rubin – has been in the hands of Laura D'Andrea Tyson, head of the White House's National Economic Council.

Reich, the administration's social conscience, has been speaking out since 1994 about the "anxious" middle class and the failure of wage growth to match the growth of corporate profits.

Writing in the New York Times, it was he who first proposed tax incentives to encourage companies to keep workers on their payrolls, to upgrade skills and share more profits with their employees. Congressional Democrats went further still. Senator Edward Kennedy of Massachusetts, for instance, proposed expanding anti-trust laws to bar mergers which would harm communities and workers, broaden labour laws to protect temporary workers and bar government contracts to companies which repeatedly violate their workers' rights.

These proposals caused some concern within the administration. Officials such as Rubin and the late Ron Brown, the commerce secretary, had helped make the administration the most pro-business Democratic White House in decades. Deficit reduction was an early priority, as was creating moderate growth with little inflation and more sensible regulation – aims which could have been threatened by the Reich approach.

This is not to say that the administration has been completely laissez faire.

One of the president's first acts was to sign legislation requiring companies to give workers time off after the birth of children or to care for sick family members, and he has been advocating a rise in the minimum wage.

Tyson has played a crucial role in resolving the corporate responsibility issue. She agreed with Reich that in a world of smaller government, companies should be encouraged to provide job retraining and education. But she was concerned about the efficiency of using tax handouts as a carrot.

Within the NEC Rubin expressed concern about the budget cost of such breaks and warned against pushing companies into providing benefits that they could not afford.

Meanwhile, Tyson received two reports about public sentiment from focus groups, one run by business and one by labour. Both agreed with Reich that the social contract between business and its workers had been falling apart under the strains of competition.

Tyson found that companies had less room for manoeuvre in the competitive global environment. "They have been less forthcoming on wages and pension, and the number of workers covered by health insurance is declining," she said. However, she also met corporate executives disturbed about worker anxiety and prepared to act themselves. Some were initiating "no layoff" policies. Others were making strenuous efforts to adapt to the world of two working-parent families, offering flexible hours, child care and jobs worked from home.

Tyson commissioned a new study about the effects of downsizing. Its results were surprising. Most of the recent new jobs created were in categories earning above-median wages. Even the lower paying service industry jobs being created were mostly managerial and professional positions. Although more white-collar workers had lost jobs than in the past, most of the displacement remained among younger, blue-collar, less-educated workers.

This study led Tyson and ultimately the president to the conclusion that the economy was beginning to create enough good jobs to help counter worker anxiety. What remained was for the government to devise policies to help workers deal with the breakneck pace of economic change.

The administration endorsed rather narrow proposals to protect pension and health insurance when workers leave their jobs. It proposed an income tax credit for small businesses if they provided tuition assistance for the workers. It also decided that, instead of giving large tax credits to corporations, the proposed tax credits should go to individuals to help them pay for higher education and skills training. Since the Republican Congress is almost certain not to pass any Clinton initiatives, these proposals are more political markers for the November election.

The NEC proposed that companies voluntarily adopt five principles of good corporate citizenship: providing "family friendly" workplaces, which recognise the need for flexible work schedules; health care and pension benefits; safe and healthy work environments; investment in employee education and training and giving employees more voice in the workplace.

Will sales pitches on the value of corporate accountability produce results? Kenneth Lehman, the co-CEO of Fel-Pro, says companies like his do not need new tax concessions.

"The case has to be made convincingly and then well publicised that companies which have harmonious relationships with their workers simply do better than those which do not," he says.

Europe gets 'inclusive'

The notion that businesses have formal social responsibilities in addition to their contractual ones to employees and shareholders has spread rapidly through the US and Britain over the past decade. But companies in the rest of Europe have tended to remain resistant to the idea that they should become more directly involved in the community.

Most continental countries have historically had both more generous social welfare provisions and little tradition of corporate charitable involvement.

Now, however, spurred by the spectre of growing "social exclusion" this may be starting to change. With 18m unemployed and 53m living below the poverty line throughout the EU, companies increasingly recognise the financial burden this represents for business.

To combat the problem, a number of top European firms ranging from Bayer AG to Philips International to British Telecom are banding together in a new organisation, the European Business Network for Social Cohesion, which will be launched at the end of this month in London.

The network, which will focus particularly on job creation through investment in training and economic regeneration projects, is being formed to encourage companies throughout the EU to take the issue of corporate involvement in the community seriously.

Successful examples of such projects already abound.

In the Netherlands, for example, ING, the bank, has worked through two foundations with Philips and Shell respectively, to provide counselling and access to resources for around 20 small businesses every year.

Similarly, in Portugal, the Mello Group, the ship repairing company, worked with other public and private organisations to establish a business innovation centre outside Lisbon which has already helped more than 2,500 small companies.

The new network will be partially funded by the European Commission.

Its primary objectives will be:

- To inform companies and financial institutions of the dimensions, causes and effects of social exclusion.
- To encourage business contributions in a joint effort to promote social and economic cohesion.
- To make business initiatives and their requirements in this field more visible towards the policymakers and social actors.

Translating these general aims into action will initially be done by investigating initiatives such as the Dutch and Portuguese ones which are already carried out by different companies across the Continent.

To that end, the network will embark on a series of studies to identify the most successful programmes in areas such as helping small business start-ups or improving vocational training and then disseminating the results.

According to Brian Wright, chief executive of the London Enterprise Agency, one of eight business enterprise agencies which will be co-ordinating the project in different countries, the network's main aim will be to spread best practice in such areas as widely as possible.

"Basically it's going to give people a chance to see what companies in other countries are trying to do and do it themselves," he says.

"I think it's going to be a very positive and successful project."

Mark Suzman

Lack of humour in message of fun

Lucy Kellaway

Have you got a worrying meeting today? Put on a pair of boxer shorts with red hearts on them or wear a lacy bra. It will remind you that things are not as serious as they seem.

If that does not appeal, try this: find a photo of yourself as a baby and bring it into the office. Get everyone else at work to do the same. Then you can have a great time working out who is who.

These tips come courtesy of Matt Weinstein, who has just written a book called *Managing to Have Fun*. For every week of the year he offers a different suggestion for how to bring fun and laughter into the workplace. According to the glowing tributes by management experts on the back cover (Tom Peters featuring yet again, plus Stephen Covey et al) the book is a "must read" for every manager who wants to boost morale.

The fun message is all the rage. Weinstein's is the fourth book on the subject I have been sent this year, each of which has come with a list of blue-chip corporations that are apparently introducing compulsory fun programmes.

It is not hard to see why fun is selling. Work has never been more grim (long hours, insecurity, mass redundancies etc) or more stressful. If people enjoy their jobs they work better, we all know that.

So if a way can be found to make work fun, so much the better. And if all it takes is a pair of cheeky boxers to boost motivation, then it is not surprising if managers are queuing up to buy these books. Fun is free, and a free way of improving productivity sounds too good to be true. Unfortunately it is too good to be true.

For a start most of us do not share Weinstein's sense of humour. The day that senior staff at the Financial Times start bringing in photos of themselves in nappies will be a sad, not to say embarrassing, one for the newspaper.

Fun is not something that management can introduce by force, but even if it were I doubt it would do much for morale. Unfortunately most of the things that make a real difference to productivity are neither simple nor free. Recognition, stimulating work, congenial colleagues and managers, good pay and conditions, that is what we all want.

Levi Strauss understands this well. Last week it decided to give everyone in the organisation a year's extra money, six years from now – provided that the company performs.

In terms of motivation this sounds more like it. By including everyone, the company has demonstrated publicly that it does not view its financial success as being down solely to a few fat cats. I suspect that in the long run the move will make good business sense, and as a private company Levi Strauss can afford to take the gamble. Yet in the present climate for quoted companies anything that means spending more on the payroll (even six years out) seems less likely to catch on than silly boxer shorts.

A German department store at midday on Saturday resembles nothing more than a British pub at closing time. Fanatical shoppers desperately making as many purchases as they can before the shops shut for the weekend. They do not just stock up on sausage and cabbage, they panic buy everything from shoes to sofas. What will happen to these shoppers once the government passes a law which allows them to spend the whole day at their favourite pastime? Will they, as the economists suggest, respond by buying 2 to 3 per cent more a year? I suspect they will do what British drinkers would surely do if allowed to drink all night – consume more slowly and more moderately.

"Culture is a game that knows no bounds. Its messages are nomads who rove far and wide, travelling without a destination. Proximity generates diversity: the further the world shrinks, the greater becomes its need for heterogeneity."

"When people meet they greet. Dogs sniff each other's behinds; cats touch each other's noses."

The reason I am repeating all this guff is that I have found it in the most unlikely of places: among this year's European annual reports. The first quote comes from the German fashion company Hugo Boss and the second from a new company called Origin, a merger between Philips C&P and BSO/Origin. Both reports weigh more than a telephone directory, come in non-standard sizes and are made out of plastic and metal.

Annual reports are important documents. If they look attractive and eye catching they are more likely to be read. If they can convey the character of the company as well as the figures then that is a bonus. Yet being eye catching only works if what you have to say is sensible; the less attention drawn to Origin's "kaleidoscope of symbols and rituals" the better. I can't help feeling nostalgia for the days when the annual report was a set of numbers with a terse chairman's statement in plain covers.

DEALING WITH DISABILITY

Multiple sclerosis

Twenty four years ago Peter Patching, who was then a carpenter, was diagnosed as having multiple sclerosis, a chronic condition of the central nervous system.

He voluntarily gave up his job because it involved considerable physical effort. But Patching, who describes himself as "somebody who does not give up", re-trained in clerical skills and for the past 22 years he has worked for Monk Dunstone Associates, the second largest quantity surveyor in the world.

"Peter Patching was hired on merit for a position we had available in technical support," says Richard Houghton, managing director of MDA (UK).

Patching is a fortunate man to be so valued. There are 85,000 people with MS in the UK and although the Multiple Sclerosis Society has no figures on their employment status it says it believes many face prejudice in the workplace.

Sarah Hodgkinson, who is carrying out research for the society, says that many employers might be reluctant to recruit someone who admitted having MS – although the society advises disclosure on job applications.

For people already in work she says that in her experience employers, when told by an employee that he or she has MS, fear that they will swiftly become unemployable. "All too often they offer early retirement or else manoeuvre the individual into leaving."

But the majority of employers, she says, have little information about the disease and the effect it can have on an individual's ability to do a job.

"The course of MS is very difficult to predict. The popular stereotype is that people with MS are in wheelchairs but that is only the case for about one fifth of people. The common pattern is that people have an attack and then often go into remission for considerable periods of time."

New leaflets, about to be produced by the society, advise both employers and employees to avoid making hasty decisions. "In many cases it takes very little to make it possible for a person with MS, who may be in the prime of their working life, to continue to work," she says.

Some people with MS may have mobility problems and companies are advised that handrails might be useful in areas with steep gradients. Often people with MS need to visit the lavatory regularly so giving them the opportunity to sit near one can make a significant difference to an individual's confidence.

Individuals, she says, may need to have their career path re-considered or their working hours adjusted so that travelling in peak time can be avoided.

Houghton says that much of his company's approach towards employing people with disabilities, including another man with MS, stems from a trainee technical assistant who became partially sighted many years ago. "We worked with Roy Smith to develop a career path for him and he is now our office manager. Roy in a sense has educated us."

Patching says: "If a company gives a disabled person a chance they will find that individual will repay them, to the best of his ability.

"Just because I am in a wheelchair does not mean I do not have a brain."

Lisa Wood

BUSINESS EDUCATION

Rex Adams, the latest businessman to become a US business school dean, talks to **Della Bradshaw**

Regal ambitions at Duke

Rex Adams, dean at the Fuqua school of business, intends to expand the faculty at the school by 50 per cent in five years

Rex Adams is a dean who means business. This month he took up his new job as the fourth dean at the Fuqua School of Business at Duke University, in North Carolina, after 30 years in the oil business. And he brings with him ambitious plans.

He intends to increase the number of faculty at Fuqua by 50 per cent over the next five years, from the present figure of 65 to a minimum of 84 and even up to 90. "The trick, of course, is to finance it," he concedes. Fuqua is "relatively under-endowed and under-capitalised," according to Adams. "We simply have to get a greater capital base behind us".

He believes Fuqua can teach its way to growth, financing expansion by selling courses rather than relying on endowments, the traditional business school route for raising funds.

The problem for Fuqua is that because the school is relatively young, the alumni are young too. So, however philanthropic they may be by temperament, they simply have not climbed high enough up the corporate or entrepreneurial ladder to fund endowments.

Courses, on the other hand, bring in instant revenue. This month saw the start of Fuqua's first global executive MBA programme, where each of the 45 students pay $75,000 (£49,000) to participate – a total of nearly $3.4m. As Adams points out, it takes a lot of endowments to bring in such a sum.

With the money Adams plans to buy in some staff but also bring on younger academics. He acknowledges this is "enormously ambitious" because "there is enormous competition for the people we want".

New faculty and old will see a change in the focus of teaching at Duke under Adams. He is adamant that quality research will continue. "We can't teach what we don't know," he says. "We need recognised faculty of sufficient breadth and depth. Ultimately it is the quality of the research, that is what counts."

He intends to alter the balance of courses by freezing the size of the daytime MBA programme and expanding executive courses, both executive MBAs and shorter courses. The expressions he uses most frequently to describe his plans for the school and its courses are "relevant" and "applicable" to business.

Adams admits that while the top faculty are all happy with the plan, some more junior faculty remain to be convinced. But he believes such a course will enhance the research base of the school, rather than diminishing it. "I certainly hope that as our faculty engages with corporations across corporate issues it will prompt and spark research," he says. Hand in hand with that he believes research is still needed in the more traditional areas of, for example, marketing.

Towards the end of his career at Mobil, Adams became president of employee relations, a position he feels will stand him in good stead as an ambassador for the school. As he points out, the ultimate customer for courses is often the person in the human resource department.

More broadly, he thinks a career in business will prove valuable in his new job. "I feel very comfortable in approaching corporate clients," he says. "A corporate background is extremely helpful in giving the ability to understand the world of the corporation you are talking to."

Adams is not the first businessman to be appointed dean in the new commercially-orientated world of US business schools – Wharton and Darden have already crossed this boundary. Adams believes business schools are now more open to such a proposition and there is no problem in finding a business person who wants the job.

The problem is less with the concept than finding people with enough knowledge of the academic world."

As a businessman Adams has already endowed his own scholarship at Fuqua. As a coal miner's son from West Virginia – "as somebody who grew up as dirt poor and ignorant" – he chose to tie his endowment to minority students. "I personally think there is an enormous need in this society for people of colour to succeed in positions of leadership."

Top spot is not an end in itself

Della Bradshaw looks at distance learning for directors

Britain's top dogs may be returning to the classroom in increasing numbers, but most company directors are unlikely to invest in retraining once they hit the top spot.

The theory that there is no more to learn once you have earned your seat on the board is viewed with increasing scepticism in both business and academic circles.

"Out-of-date knowledge is dangerous," says John Harper, professional development director at the Institute of Directors and director of the IOD's Centre for Director Development.

The centre is expanding its range of courses designed for directors, including non-members of the IOD. It presently offers a range of two-day courses of which directors have to complete eight (seven obligatory plus an optional one) over a two-year period. This qualifies them for the IOD's diploma which can act as the first stage of a masters degree in company direction.

Many directors still find it difficult to allocate enough time to go on courses

But although the diploma is "popular because of the way it is structured," according to Harper, many directors still find it difficult to allocate enough time to go on courses.

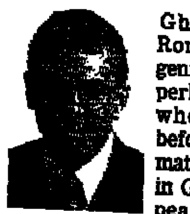
So, on July 4, the centre is launching four distance learning packages under the title "Business Direction".

The courses will cover topics such as strategy, efficiency, motivating people and finding and keeping customers. It will be available either in book form or on a PC disc. Harper argues that traditional management training is inadequate for those taking up board-level appointments. Training for directors should focus more on strategic issues, he says, where a director's strengths should lie.

Last year some 2,500 directors studied on 3,500 courses at the centre, which is the biggest training organisation for directors in the UK. But with 500,000 company directors working in the UK, that is just 0.5 per cent of Britain's bosses.

Spot the Balkan banker

Keith Wheatley finds football in eastern Europe to be an entirely serious business



Gheorghe Hagi, Romania's midfield genius and captain, was perhaps over-wrought when interviewed before last Thursday's match against Bulgaria in Group B of the European soccer finals. Speaking of his friend and opponent Hristo Stoichkov, he said: "Both of us are playing for our country's future."

His remark was histrionic, perhaps, but it contained more than a grain of truth.

Commentators lamented that only 19,107 spectators turned up at St James's Park in Newcastle to watch Bulgaria play Romania. Darkly, they hinted at massaged figures. Frankly, it seems extraordinary that even that many Tynesiders could have been tempted from their homes and gardens to watch Bulgaria *vs* Romania in a Danube derby.

In fact, most of those 19,107 may well have been dedicated partisans who made the long coach journey across central Europe in ancient vehicles belching smoke to cheer on their heroes.

From a Balkan perspective, the stakes in this mid-summer football competition are huge. The British may amuse themselves watching England's coach, Terry Venables, trying to handle criticism of the England team, though Venables' burden was lightened by his team's 2-0 win against Scotland in London on Saturday.

In eastern Europe, however, football is an entirely serious matter. Indeed, Danish referee Peter Mikkelsen might have been the target of a lynch mob had he appeared on the streets of Bucharest the morning after failing to spot that a shot by Dorinel Munteanu had clearly landed over the Bulgarian goal-line after striking the underside of the cross-bar, because the disallowed goal effectively put Romania out of Euro 96.

Hagi ran straight to the linesman to protest the decision, but to no avail. His self-control was admirable when one considers that a good deal more than self-esteem was involved. Back in the days of the Soviet empire, it was accepted within eastern Europe that successful international athletes were, along with politicians, virtually the only people able to live as prosperous and relatively free individuals.

However, in the transitional societies these countries have become, sports stars possess extraordinary commercial and political influence. Hagi, who was signed by Barcelona in the aftermath of a sparkling performance at the World Cup finals in the US two years ago, owns one of the few private dental practices in Bucharest.

That makes him a successful small businessman, but if he was home in time to vote in yesterday's mayoral election, Hagi may have been in the mood to contemplate might-have-beens. Ilie Nastase, 50, should learn in the next few hours whether he has been *successful in his attempt to make the transition* from middle-aged former tennis star to political heavyweight.

In the first round of the mayoral poll, Nastase, who has allied himself to the ruling Party of Social Democracy, came second in a field of 47. On the other hand, perhaps Nastase's old friend and doubles partner, Ion Tiriac, could give him a job. Barely had the brief "Romanian revolution" ended before he had formed the Bank Ion Tiriac.

Contemplating the equivalent in England – Bank Paul Gascoigne – hardly makes sense at all, despite Gascoigne's memorable goal at Wembley against Scotland. Bank Ion Tiriac, on the other hand, is an entirely serious matter. "It has a reliable and good image. There has been no scandal attached to this bank and that is unusual in my country," says Romanian economist Irina Dumitriu. Will things turn out equally well for Tiriac's *former partner, who often exasperated* him on court?

"Nastase's success in tennis was based on his talent with a ball, not on his brain," explains Dumitriu. "Tiriac was always more cerebral and could *use that when he came to make a* career in business." En route to her office after Romania's match against Bulgaria, she had seen angry groups of fans gathered in noisy aimless bunches, but believed, in any case, that the *earlier defeat by France had largely* deflated Romania's hopes for Euro 96. She says: "Romanians are famous for giving up easily. Nastase is now our big sports story."

Hristo Stoichkov was the player who made the difference for Bulgaria and sealed Romania's fate. Gathering the ball just beyond the halfway line, the tempestuous forward gathered momentum on a long run that brushed aside two defenders before blasting a goal from just inside the penalty area.

Stoichkov, who is another of eastern Europe's football diaspora – he currently plays for Parma in Italy's Serie A – is so popular at home that in Sofia there is a weekly newspaper devoted entirely to him. After the Newcastle game, the coverage can only have been favourable, which in turn may help with the ticklish job of persuading Bulgaria's central bank to issue a licence for the Natzional Bank that Stoichkov has established with team-mates Emil Kostadinov and Trifon Ivanov.

Even in a football-crazy country that regarded its unexpected fourth-place finish in the World Cup two years ago as the biggest event of the 20th century, and with a *principal* (Stoichkov) who scored in seven of Bulgaria's 10 qualifying games for Euro 96, starting a bank in Sophia is still a fairly serious business.

Yet with the help of his partner, Emil Harsev, who just happens to be a former deputy governor of the Bulgarian national bank, the example of Ion Tiriac and a good run through the final rounds of the current European finals, one could yet see Hristo Stoichkov as chief cashier. After Stoichkov's goal at St James's Park, I thought I heard unhappy Romanian fans shouting that the scorer was a banker.

Yesterday's action: Russia's Yuri Kovtun, left, and Viktor Onopko, right, compete against Germany's Oliver Bierhoff

Quietly building on the legacy of a modernist master

The towering presence of Sir James Stirling still inspires the work of his partner, but Michael Wilford's own stamp is clear, writes Colin Amery

Competing with the dead is difficult. When a famous architect dies and his partners try to carry on with his work as though nothing has happened, things can, to say the least, get difficult. Sir James Stirling died suddenly in 1992, aged only 64. Something went wrong after relatively minor surgery and he was gone.

While his family mourned, his practice had to continue. It had reached a point where his fame had put the firm close to the top of the international tree. Stirling was a highly original designer, and he combined his talents for three-dimensional creativity with a dominating personality. Apart from his large physical presence he had a creative drive that gave his buildings real character.

It is too early to assess his influence fully, and the authorised critical biography by Mark Girouard now in preparation is awaited with enormous interest.

It was Girouard who first compared Stirling to the great Victorian eccentric architect William Butterfield. Certainly Stirling shared Butterfield's sense of muscular and colourful form-making, and both designed buildings that firmly impress themselves on the memory. Butterfield's Keble College chapel in Oxford and the great drum of Stirling's art gallery in Stuttgart are not easily forgotten.

However, no architect works entirely alone and for 32 years Stirling worked closely with one man in particular, Michael Wilford. They were actually partners for 21 years, working steadily as the perfect team despite Stirling's sometimes overwhelming personality.

Wilford seemed to be the quiet one, the one who turned the visions of the master into reality.

There is a chance to see how far this assessment is true in an important exhibition at the Royal Institute of British Architects, entitled Wilford Stirling Wilford.

How far is this a Stirling exhibition and how far a Wilford exhibition?

There are 10 projects on view. Four of them, the Stuttgart music school, the science library at Irvine, California, the development at No 1, Poultry, in the City of London, and, to a lesser extent, the Temasek polytechnic in Singapore, are clearly the work of the master.

What is impressive is that the six other schemes, all developed since 1992, are designed purely by Michael Wilford and Partners and do not in any sense depend on the weight of Stirling's name. Stirling still inspires and it is a mark of respect for his memory to continue to use his name, but the flame has been passed on.

There is a sound-guide to the exhibition, and if you have time I recommend it. Wilford's soothing voice slowly guides you into his thinking as you contemplate the models and drawings.

Stirling's great skill was to carve space out of solid forms and to relate those new spaces to their surroundings. Wilford doesn't talk, as Stirling would have done, about the timeless qualities of architecture or the emotive nature of simple geometric forms. Indeed, Wilford's evolution of Stirling's ideas cannot have the originality of those of the man himself. Instead, the later buildings return much more to the older modernist ideas of "form following function".

The design for the controversial building at No 1, Poultry, which is at present taking shape, goes back to 1985 and it is bound to be seen as the destroyer of much of the City's conservation area. When it is finished I think it will look dated and be seen as much too big for its small site and elephantine in its detail.

In contrast, the new British embassy in Berlin, which Wilford won in a design competition in 1994, has a generous site on the Wilhelmstrasse. The embassy and consulate are built round courtyards, one of them planted with a symbolic oak tree.

There is considerable formality in the plan, and guests will climb a fine grand staircase to arrive at a large indoor winter garden. The scheme resembles a small town palace in Paris and, while less intense than a Stirling building, has a simple dignity appropriate to its function.

One thing I cannot imagine Britain's indulged Foreign Office mandarins much liking is the fact they will be overlooked by the staff while they entertain on the main floor. I anticipate much closing of blinds to ensure that these denizens maintain their beloved sense of secrecy.

Wilford Stirling Wilford, at the RIBA Architecture Centre, 66 Portland Place, London W1, until August 3. Open until 9pm on Tuesdays and Thursdays.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Abbey Natl Treas Services 9⅝% Gtd. Bds 04 L481,250
Brit Airways 10⅝% Bds '08 £103.75
Christiania Bank og Kred 8% Sub. Nts. $800
City Mort rec 1 Mort FRN. 2023 £56.29
Finance One Public 5R% Sub. Conv. Bds. '03 $57.50
Flash FRN. 1998 Y294,567
Forte FRN. 1999 £1,740.03
Grand Met Inv 7% Nts. 1999 $70
Hankyu Corp. FRN 1996 Y22,197
Honeywell $0.26
Japan Fin Municipal Ents 7½% Gtd. Bds. '04 $375
Kinki Nippon Rail 3.35% Bds. '98 Y355,000
Do. 3.60% Bds. '99 Y360,000
Kobe Steel 5.1% Bds. 2000 Y510,000
LASMO 9½% Nts. '99 £950
L. Gardner 2p
Louisiana Land Expln Cap. $0.06
Marubeni Corp. 4.3% Nts. '97 Y430,000
Do 4.6% Nts. 1998
Midland Bank Non-Cum Pf. A1 $0.355
Do. Non-Cum. Pf. A2 $0.08875
Do. 8⅝% Sub. Nts. '04 $6,468.75
Do. Undated FRN Nts. $297.41
Peneford Mort A1 FRN '37 £1,849.43
Do. A2 FRN '37 £1,861.23
Do A3 FRN 2037 £1,873.03
Royal Bank Can FR. Debs. '85 $146.88
Royal Bank Scot Und. FRN $301.91
St. Lawrence Ottawa Rail 1st Mort Bds. £1
Santander Fin Iss Sub. Und. Var. Nts. $4,044.0
Sanwa Australia Fin. $1,544.23
Sapparo Brew FRN. '99 Y3,951
Sara Lee UK 9.43% Gtd. Bds. '04 £23,575
Scotland Intl. Fin. 14¼% FRN. '96 $30.18
South Africa (Rep of) 9⅝% Nts. '99 $48.125
Thomson Corp. $0.1375
Time Warner $0.09
Toda Corp. 5% Bds. 2000 Y500,000
Toto 5.7%Bds '97 Y570,000
Toyo Construction FRN '98 $30,500.13

■ **TOMORROW**
Aspen Comms 3.75p
Bear Steams Cos. FRN 1996 *$147.50*
BTR $0.701
Gold-Intl. Fin. B FRN. 2002 Y326,633
Japan Air 4.6% Bds. '98 Y460,000
Kobe Steel 7.1% Bds. '98 *Y710,000*
Limited Inc. $0.10
Lloyds Bank VRN. '98 £157.73
Mitsui Toatsu Chems 5.8% Bds. '96 Y580,000
Do. 5.85% Bds. Y585,000
Sumitomo Chemical FRN. '97 *Y19,869*
Sumitomo Metal Inds. 5.65% Bds. '96 Y565,000
Do. 5.75% Bds. '97 Y575,000
Sumitomo Realty & Dev. FRN. '98 Y19,885
Whitchurch 1.05p

■ **WEDNESDAY JUNE 19**
Birmingham Mid Bldg. Soc. FRN. 2000 £155.53
BP America 9½% Gtd. Nts. '98 £95
CRT Group 0.925p
Dairy Farm Intl $0.0435
Do. $0.0435
Do. $0.0435
Helical Bar 4.4p
Hongkong Land Holdings $0.08
Do $0.08
Do $0.08
Jardine Matheson Hldgs. $0.172
Do. (Jersey) $.172
Do. (Sing.) $0.172
jardine Strategic Hldg. 0.099
Do. (Jersey) $0.099
Do. (Sing) $0.0.99
Mandarin Oriental Intl. $0.0435
Do. (Jersey) $0.0435
Do. (Sing) $0.0435
Tongaat-Hulett R0.90

■ **THURSDAY JUNE 20**
Assoc Brit Ports 11⅞% Bd '11 £593.75
Burmah Castrol (Jersey) 9½% Cv Bd 2006 £47.50
Coventry Bldg Scty FRN '97 £157.10
DFS Furniture 3.1p
DKB Int Fxd/FRN Dec '04 *$31333.97*
Enron $0.215
Essex & Suffolk Water 3½% Perp Db £1.75
Do 4% Perp Db £2.0
Do 5% Perp Db £2.5
Ex-Import Bank Jap 8¾% Gtd *Bd '01 $437.50*
GMAC Australia 11¾% Nts Jun '96 A$117.50
Italian Int Bank Sb FRN '96 $298.65
Mercury Keystone Inv 6p
Shiloh 2.85p
Thistle Hotels 10¾% 1st Mtg Db '14 £5.375
UPF 1.6p

■ **FRIDAY JUNE 21**
Adelaide Bank FRN '98 $14.60
Alcan Aluminium $0.15
American Int $0.085
Bank of Scotland 4.4p
Daniels (S) 0.1p
Ford Credit Europe FRN '01 £15.77
Graystone 0.21p
Nihon Doro 9⅜% Gtd Bd 2000 *$468.75*
Ocean Wilsons 3.5p
Unilever 7⅛% Bd '04 FFr712.50
Woolwich Bldg Scty FRN '99 £157.10
Yorkshire-Tyne Tees TV 10.3p

■ **SATURDAY JUNE 22**
Barclays 9% Bd '96 FFr900.0
Newcastle Bldg Scty 10¾% Perm Int Brg £53.75

■ **SUNDAY JUNE 23**
Greenalls 10½% Db '17 £5.25
Melrose Energy 0.29p

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Ronson, 1 Embankment Place, W.C., 10.00
Martin International, Swallow Hotel, South Normanton, Derbyshire, 12.15
Whitchurch, 12 Suffolk Street, S.W., 10.00
BOARD MEETINGS:
Finals:
Adare Printing
British Steel
Cheam Grp.
Filofax Grp.
London Industrial
Oceana Cons.
Penna Hldgs.
Sterling Inds.
Wagon Industrial
Interims:
Invesco Recovery Tst.
London Scottish Bank

■ **TOMORROW**
COMPANY MEETINGS:
Cordiant, The London Studios, Upper Ground, S.E., 11.00
Parambe, 4 Chiswell Street, E.C., 2.30
QS Holdings, 21 Gardner Road, Portslade, Brighton, 12.00
Shires Investment, 41 Tower Hill, E.C., 12.00
United Industries, *Arabesque* House, Monks Cross Drive, Huntingdon, York, 10.30
Whitbread, The Brewery, Chiswell Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Amber Industrial Hldgs.
Carpetright
Firstbus Grp.
Harris (Philip)
Hazelwood Foods
IWP International
Mountview Estates
RPC Grp.
Sutcliffe Speakman
Tinsley (Eliza)
Tring International Grp.
Wellman
Interims:
Eurotherm
First Leisure
Intercare Grp.
LPA Industries
Watson & Philip

■ **WEDNESDAY June 19**
COMPANY MEETINGS:
Aegis, 11a West Halkins Street, S.W., 3.00
Body Shop, The Conference Centre, Wick, Littlehampton, West Sussex, *11.00*
City of Oxford Investment Trust, 41 Tower Hill, E.C., 12.00
Hay (Norman), The Armoury, Council House, Earl Street, Coventry, 11.00
Huntleigh Technology, Institute of Directors, 116 Pall Mall, S.W., 11.00
John Lewis, 171 Victoria Street, S.W., 12.00
Shiloh, Holden Fold, Royton, 11.30
Sotheby's, *34-35 New Bond* Street, 10.00
Wakebourne, 4 Broadgate, E.C., 11.00
Wensum, 10 Newhall Street, Birmingham, 2.30
BOARD MEETINGS:
Finals:
New London Capital
Railtrack
Swan (John) & Sons
Symonds
Tams (John) Grp.
Interims:
Airtours
Legal & General Recovery

■ **THURSDAY June 20**
COMPANY MEETINGS:
Appleby Westward, St Mellion Golf Club, St Mellion, Callington, Cornwall, 2.30
Berry, Birch & Noble, Griffen House, West Street, Woking, Surrey, 11.00
F&C German Investment Trust, Exchnage House, Primrose Street, E.C., 12.15
JJB Sports, Wrightington Hotel and Country Club, Mos Lane, Wrightington, Wigan, Lancashire, 11.00
Montanaro UK Smaller Co's, Bucklersbury House, 83 Cannon Street E.C., 12.30
Radiotrust, 999 Charterhouse Street, E.C., 12.00
Scottish Mortgage and Trust, 1 Rutland Court, Edinburgh, 11.00
Slingsby (HC), The Victoria Hotel, Bridge Street, Bradford, West Yorkshire, 10.30
Yule Catto, 23 Great Winchester Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Anglian Grp.
Associated British Engineering
Bandt
Courts
GEI Intl.
Heath (C.E.)
Norcros
Northern Electric
Radstone Technology
Rebus Grp.
Stoddard Sekers Intl.
Syltone
Wessex Water

■ **FRIDAY June 21**
COMPANY MEETINGS:
Finlay (James), The Trades Hall of Glasgow, 85 Glasgow Street, Glasgow, 12.15
Oceans Wilsons, The Great Eastern Hotel, Liverpool Street, *E.C., 10.00*
Rhino Group, 200 Aldersgate, E.C., 3.00
BOARD MEETINGS:
Finals:
Cambridge Water
Latham (James)
Photobition Grp.
Interims:
Bankers Inv. Tst.
Electra Inv. Tst.
Henderson Strata Invs.
Quality Care Homes

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

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Tim Jackson

Europe the loser as jitters put start-ups out in the cold

After two years of an extraordinary bull market in technology shares, it might seem strange to discover that European venture capitalists are less keen on technology than they were a decade ago. Yet such is the case. According to a recent paper by Dr Gordon Murray of Warwick Business School, British venture capitalists invested only 12 per cent of their funds in technology businesses in 1993, compared with 33 per cent in 1984. The same phenomenon is evident across Europe.

Asked to explain this trend, an economist might suggest that Europe's comparative advantage has moved away from technology and away from start-ups. One study showed that start-up and early-stage investments during the 1980s produced an internal rate of return of only 4 per cent a year, compared with 23 per cent for larger buy-out funds. But Dr Murray argues that the real reason for the drop in investment in new high-technology businesses is what he calls an "innovation trap": an infrastructural problem that stifles these businesses that are so valuable in a healthy economy.

Several governments across Europe have subsidy programmes for high-tech investment, with catchy acronyms such as Sofaris, Smart or Spur, says Dr Murray. But he bemoans the lack of a Europe-wide subsidy programme as an "omission of profound strategic importance to Europe's future competitiveness".

I believe this view is wrong, and that the paper both misdiagnoses the problem and prescribes the wrong solution. To start with, lack of subsidy is probably the least important reason for the shortage of venture capital funding. During recent months I have spoken at length to half a dozen venture capitalists in California's silicon valley, where the industry is centred, and never heard one of them mention public subsidy as an incentive to invest.

In any case, most technology industries are moving so fast that the extra bureaucracy entailed would have an unacceptable time-cost. Since the European Commission can take a year simply to process the paperwork necessary to hire someone, it is hard to believe that any start-up with good prospects would wish to waste a year or more of meetings and memos in order to obtain subsidies. If it did, the opportunity it hoped to take advantage of might well have evaporated by the time the money came through.

The shortage of technology start-ups in Europe probably has more to do with an inhospitable small-business environment: High non-wage costs, restrictive employment laws and red tape all take their toll, as does the conservatism of the European business establishment. Banks, lawyers, head-hunters, landlords and equipment leasing companies are much harder to deal with on the eastern side of the Atlantic, and more insistent on up-front cash.

In silicon valley, an ocean and then a continent away, these professionals are willing to take payment from start-ups in the form of equity; consequently, Californian entrepreneurs are able to polish off in a few hours tasks that might take their European equivalents weeks. This matters, because it allows the US start-up to spend more of its intellectual and emotional reserves on the central task of developing and marketing a new product.

A further problem in Europe is the unwillingness of backers to take seriously people who went to the wrong university, or who have the wrong accent. A tiny but interesting symptom of the European prejudice can be seen in Dr Murray's paper itself. In three out of four photographs featuring people, the only identifiable figures are middle-aged white men in suits. Would most European venture capital firms be willing to deal with a scruffy teenager with a great idea for a new computer game? They would all doubtless say yes, but I do not believe them.

European venture capitalists also have a profound and unhelpful ignorance of technology. Dr Murray quotes one as saying, albeit jokingly: "If it has a plug or coloured wires, we won't touch it." No subsidy will overcome such prejudice. What is required is a Californian standard of technological expertise, where many VCs have experience in high-tech businesses themselves and are often the best informed people on the sector as a whole.

So what should governments do to help solve the problem? I believe the answer is nothing – because a technological change is taking place that will bring US professionalism, and US money, to Europe.

Until now, most venture capitalists have confined their attention to local businesses, because they know they need to be available for frequent meetings and phone conversations with the fledgling entrepreneurs they have backed.

Arthur Rock, a famous venture capitalist who backed both Apple and Intel, used to make it a rule only to invest in companies he could drive to from his San Francisco office. With the arrival of e-mail, low-cost video-conferencing and Internet telephony, all this has changed. An investment in Scotland can be as easily managed as one in San José. And being far from silicon valley can have advantages for a start-up entering the US market, such as a supply of skilled, cheap, immobile labour.

I am not the only one to see potential for US venture capitalists in Europe. This morning, a two-day conference on European venture capital opens at London's Inter-Continental Hotel, organised by *The Red Herring*, a US technology business magazine named after the draft prospectus that traditionally precedes an initial public offering in the US. Tony Perkins, the magazine's editor, is also considering launching a European venture capital fund for US investors. The paradox is that Britain's tax regime already appears to be more favourable than that of the US to individual investment in first-stage venture capital.

When I met Perkins a few weeks ago, he expressed astonishment at the generosity of the concessions offered by the UK tax authorities to investors in venture capital trusts (VCTs): 20 per cent basic tax relief on investment; freedom from all income and capital gains tax on the investment if it is held for five years; and a "rollover" allowing people who are investing with the profits of an earlier venture to postpone payment of CGT until the VCT fund matures. Yet fund managers in Britain have launched a number of VCTs that explicitly eschew start-ups. If nobody else starts a VCT fund specialising in technology, I'll do it myself.

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View from the cybercouch

They need a wash and brush up, but cybersoaps are a key indicator of the future for on-demand entertainment. By Victoria Griffith

The lead-in to cyberserial *Techno 3* is not very promising. According to the plot summary, *Techno 3* is a cyberversion of US television soap *Charlie's Angels*, in which the lives of three lovely ladies are controlled by a diabolical cyberterrorist.

Photographs of sexy women accompany the text, which includes passages like this: *"Marie gently tugs down her black mini-skirt that has ridden up her smooth and well-toned legs. Her fingers begin to race anew across the keyboard at frightening speed as she mumbles to herself in a soft and sultry voice: 'I hope I'm not to* (sic) *late'."*

Yet from such humble beginnings, say analysts, cyberspace producers may be planting the seeds of a new on-demand entertainment form that could eventually rival television.

Techno 3 is one of a growing number of episodic narratives available in cyberspace. Sometimes called cybersoaps after TV soap operas, the stories are updated once or twice a week and are drawing growing numbers of fans.

Dozens of cyberspace serials have cropped up on the Internet during the last 12 months, their titles sounding like those of TV shows: *Kapow*, *Ferndale*, *The East Village* and *The Spot*. So far, viewership is limited. Even the most popular attract no more than a few thousand viewers a day compared to the millions who tune into the most-watched TV shows.

Indeed, if judged purely on the way they are presented just now, it is hard to believe that cybersoaps could become significant 21st-century entertainment platforms. Because downloading video is still too time- and memory-consuming for most home computers, the present generation of cybersoaps is largely text-based and spiced up with a few photographs and graphics. And the quality is often poor; episodes of *Techno 3* are littered with grammatical errors, and even the best, such as *The Spot* and *Kapow*, exude cheapness.

"Cybersoaps in some ways present the worst of both worlds," says William Bass, an analyst at Forrester Research, the technology research and consulting group. "You get the mindlessness of many TV programmes without the watchability, and you get text without the portability of a book."

Yet observers believe that a huge industry for interactive video-on-demand may spring up throughout cyberspace. "A lot of people have been forecasting that video-on-demand will be coming through the computer rather than TV," says Stanley LePeak, a multimedia analyst at Metagroup. "This may be the first indication of how that would work."

Even in their present primitive state, cyberserials offer some advantages over TV. The soaps are set up to be interactive, so viewers say they feel more a part of the action. *Kapow's* viewers can enter live chat-rooms to talk about the show to other readers. *The Scrolling Mystery Theatre* allows them to e-mail its characters, and the writers of other cybersoaps ask fans to e-mail them with ideas for plot twists. "I like to feel that I'm a part of what goes on in the story," says Tyler Morrett, a software engineer and cybersoap fan. "That's why I prefer them to television."

Cyberserials are viewed on-demand, which may be the key to their future success. Episodes can be seen in any order, at any time, unlike television, which still subjects fans to inflexible broadcasting schedules.

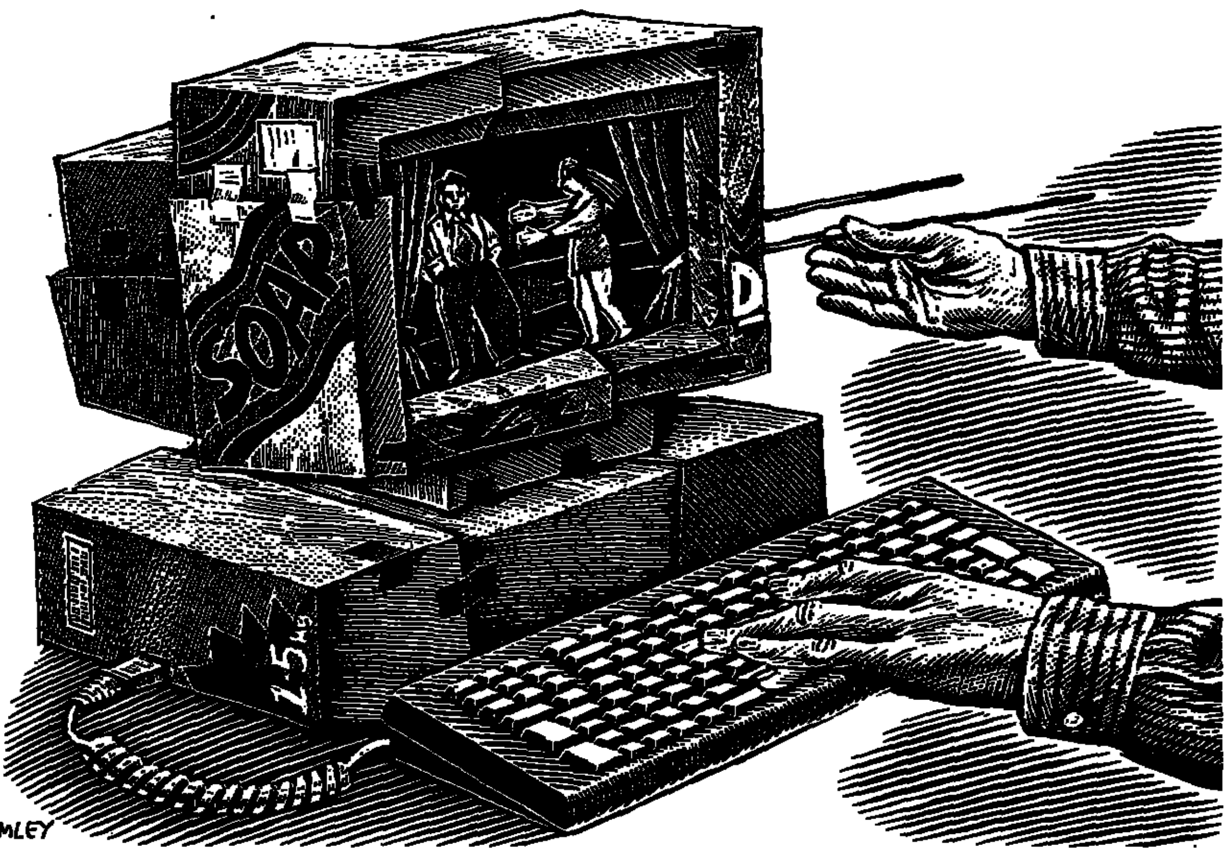
Producers and writers also revel in what they say is a free-wheeling style not available on TV. "I love writing for the Net because it comes out more the way I plan it," says Rockne O'Barren, creator of cyberserial *Eon-4* and an experienced TV writer. "You don't have to go through the producer and network and endure the changes everyone makes to your work." O'Barren says he also enjoys the instant feedback he gets from the online audience. "My e-mail is always filled with suggestions from fans, and sometimes that gets me thinking," he says.

Indeed, the immediate feedback cybersoaps generate, and their relatively low production costs, may in the short term turn the Internet into a testing ground for TV shows, says Kay Dangaard, vice-president of cyberserial producer American Cybercast, a joint venture between Intel, Tele-Communications Inc, Hollywood talent agency Creative Artists Agency and US advertising agency Fattal & Collins. "I can see producers testing an idea on the Web before running the concept on TV," she says.

If cybersoaps are to thrive in the long run, they will need to attract more advertising. Until now, creators of the new shows have chalked up nothing but losses. American Cybercast says it costs $100,000 (£65,300) per month to produce *The Spot*, a sum advertising revenues have failed to cover. "We've been in the red up to now, but we hope to start breaking even by the middle of next year," says Dangaard.

The amount of advertising associated with cyberserials is still tiny, but a few companies – K Swiss trainers, Honda and Columbia Pictures among them – are hawking their wares on the sites. And advertising agencies believe the sector will grow. "There's certainly potential here," says Tig Tillinghast, director of agency J Walter Thompson's interactive arm. Tillinghast believes the next round of cybersoaps may incorporate advertising more integrally into storylines.

How quickly – or, indeed, whether – cyberserials can start turning a profit is uncertain. Until the sites become more video-based, audiences will probably continue to be small. Yet analysts believe it is a medium to watch. "I think this is the kind of thing the Web needs to add vibrancy to the content," says LePeak of Metagroup. "Most people visit sites just once because the sites are static. But this gives you a reason to tune in once or twice a week. In that way, it's just like television."



The future isn't what it was

Technology's dominance of convergence in the entertainment, media and communications (EMC) industries is crumbling, and consumer demand is asserting itself as the real force in the market, according to a new study by the Price Waterhouse EMC Consulting group.

Suggestions that the converging sectors will coalesce through mergers into vertically integrated content-and-technology corporations are also losing credibility.

More likely in the immediate future is a shake-out of the "organised chaos" that rules in multimedia, according to the Price Waterhouse review. Lacklustre consumer acceptance, last year's deregulation of US telecoms and the lack of technology standards have brought EMC companies to a turning point, it says. The technologies left standing after the impending shake-out, and the companies which develop and use them, will set future standards, according to Paul Goodstat, the group's chairman.

The review, based on interviews with 50 industry executives, attempts to draw together the threads of recent experience and project a pattern of likely developments for the coming year.

Its dozen predictions range from the optimistic, as with prospects for "virtual universities", to the dour, as in the poor short-term outlook for video-on-demand services and online games.

Distance learning will be driven mainly by the low cost of video-conferencing equipment, estimated to drop from about $1,000 (£653) per desktop at the end of last year to $400 in 1997. Call-up video and games will suffer because high costs and lack of standards have resulted in consumer scepticism, the report says.

"Despite its infancy, convergence in the EMC industries is at a turning point," says the group's top executive, Kevin Carton. "There is a critical need to focus ... on the customer as first in the value chain ... It is time to start putting the pieces of the convergence puzzle together for consumers, so they can benefit from the vision the industry has been talking about for five years."

Unsuccessful results from US trials with interactive television illustrate the obstacles hampering convergence, the study says. Although some industrialists continue to believe that a combined TV and PC "set" will gain acceptance, others do not. As a result, the report concludes, interactive TV trials will continue slowly as providers come to terms with consumer and technological demands.

"Consumers look to TV for passive entertainment where no work is involved," says John Hendricks, a senior executive at media group Discovery Communications. "The computer is much more interactive. It is also very personal: the whole family cannot use it at the same time." In addition users have little patience with ill-conceived computer games. The Price Waterhouse study predicts "hand-to-hand combat" in this sector, with technology specialists resting on their laurels being trounced by intelligent marketeers who understand customer behaviour.

Other short-term forecasts include the arrival of pay-per-view newspapers on the Internet, continued explosive growth of corporate intranets, and increased real-time use of two-way audio and visual links, with remote banking becoming reality by 1998.

Ira Carlin of McCann-Erickson Worldwide counsels caution with longer-term predictions. No matter how firmly industry leaders forecast their vision of the future, he warns, some new technology or notion will pop up to throw it out of focus. As he says: "The future ain't what it used to be."

Christopher Parkes

Cyber sightings

By Stephen McGookin

● Brazil Financial Wire (*www.agestado.com/bfw*) is a news service in English put together by Sao Paulo-based Agencia Estado. You'll need to register, but it's well worth it. If you deal with the region it's an excellent alert source and also provides regional business news and a summary of the Brazilian press.

● Details of what is billed as the "first shareholders' meeting to be held on the Net" using RealAudio technology can be found at the Bell & Howell site (*ww2.audionet.com/pub/belhowel/belhowel.htm*) where the company says a slide show of the event is also available.

● "Designing the Internet" is a conference about design issues in new media, organised by Design Agenda in association with London's Central St Martin's School of Art, from July 4-6. Registration information can be found at *www.spy.co.uk/da/index.html*

● NatWest and ICL last week opened Buckingham Gate, their collaborative Web mall venture, aimed at well-heeled international virtual tourists and bringing together distinctly English advertisers and information sources. The street map is nicely done and the events listings are basic, but easy to use. Should be a hit with exactly the sort of visitors they have in mind. Very promising.

● The Securities Institute of Australia (*http://securities.edu.au*) has a useful site which is designed as an aid to professional development for people operating in the securities industry. The site is currently being developed but looks interesting.

● Stockhouse (*www.stockhouse.com*) gives data and weekly stock selections which might be interesting for speculators and investors following Nasdaq and the Canadian exchanges. Nice and simple, with neat charts.

● Prestige Imports (*www.mja.net/prestige*) is a Florida-based automobile dealer, specialising in exotic and collectible cars from Lamborghini to DeLorean. I guess in Florida a 1995 Range Rover qualifies as "exotic".

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Financial Times on the World Wide Web
www.ft.com
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www.usa.ft.com
Updated daily

BUSINESS TRAVEL

Travel News · Roger Bray

More carriers please

Neil Kinnock, European transport commissioner, has ordered a detailed investigation of air fares within the EU – to see whether travellers are paying more on routes where traffic is carved up by just two airlines than on those where several carriers compete. UK airline British Midland already knows the answer.

In the last 10 years, it says, business class fares on routes with extra competition rose by 36 per cent against 45 per cent on those without. Passenger numbers on the former rose by 81 per cent – on the latter by only 53 per cent. It estimates the total cost of these lingering duopolies to European business at £303m.

Assault on batteries

Richard Branson's Virgin Atlantic, which starts a new service between London and Washington DC on 26 June, plans to install power points for laptop users on some aircraft.

The move is part of a £10m deal with Matsushita to fit on-demand video and audio entertainment systems in two Boeing 747-400s and three Airbus A340s, all on order and due for delivery in the first half of next year.

New Detroit terminal

Detroit's Metropolitan Airport is to get a new [illegible] terminal. An agreement between Northwest Airlines and Michigan's Wayne County authorities [illegible] construction [illegible] parallel runway [illegible] total to six.

The airport, Northwest's biggest hub, [illegible] promoted as [illegible] gateway [illegible] or Chicago [illegible] transfer to [illegible] International [illegible] served by [illegible] Detroit include [illegible] Frankfurt, Paris, Tokyo and London Gatwick. The terminal is due for completion by 2001.

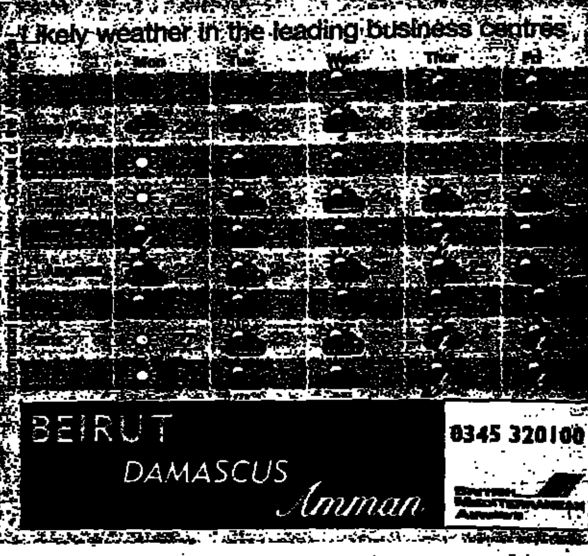
Asia deals

[illegible]

Big plans [illegible]

[illegible] unlimited [illegible] phone calls [illegible]

[illegible] people in those countries are [illegible] available. Awareness remains low in Belgium and Germany.



Amon Cohen suggests how to invest in safety for those heading into the world's troublespots

Destination danger

Good news awaits you at Moscow's Sheremetjevo airport if your travel agent belongs to an international partnership called First BTI. On arrival at the airport you will be shown to a bus that takes you directly to your hotel in the city centre.

At first sight, a charge of $50 (£33) return or $30 one-way may seem a little steep for the service, but it appears more reasonable when you realise the price includes an escort – in fact, an armed guard.

The alternative is to take a taxi into town, but not all travellers who have set out for their hotel in this way from Sheremetjevo have arrived at their intended destination.

However scary a visit to Russia can be, it is a sobering thought that it is almost Arcadia when compared with the world's most dangerous destinations. Russia does not even figure on the list of countries which the UK's Foreign Office advises against visiting under any circumstances, nor even on a secondary list of countries to which essential travel only is recommended.

Ask people in the UK travel business what the first rule is for visiting a dangerous destination and many will suggest adherence to Foreign Office guidelines. The FO says: "You would be very silly to travel to these places, and you might end up very dead."

Silly or not, however, there are times when a company's commercial interests are so much to the fore that it will send its employees to very dangerous destinations. Among corporate types most likely to boldly go where they ought not to go are those in the oil business, and one man who regularly does so is Norman Ryan, manager of corporate travel for Europe, Africa and the Middle East for oil exploration company Halliburton Holdings.

This year Ryan has already visited Angola ("essential business only", says the FO) and Algeria ("under no circumstances"), not to mention Nigeria, also renowned for its security problems.

Angola is still recovering from civil war, with assorted bandits, renegade soldiers and former mercenaries roaming the countryside. In Algeria, Islamic terrorists deliberately target western business executives. Yet despite the obvious dangers, Ryan was not unduly concerned about making those journeys.

"Our company has given a lot of attention to making these destinations safe for our employees," he says, "so while there was a threatening environment outside, we felt perfectly at ease inside because we knew we were being looked after."

Ryan's views closely resemble those of Christopher Grose, director of information services at Control Risks Group, which specialises in advising companies and their travellers about security.

"Generally it is a good idea to follow FO guidelines on which countries to visit," says Grose.

"The one exception is if you are visiting a country where your company is well established and can put its arms round you. If you are flying to the oil-producing area of Hassi Messaoud in Algeria, for instance, you will be well protected there, so it is very different from going to the capital. Even in Algiers, however, you are likely to be safe if you are looked after."

Being careful does not necessarily mean retreating to your international hotel bunker after your work is finished, either. Grose says it is perfectly possible to enjoy a wild night out in Bogota and return with both wallet and limbs intact.

"You can go to dinner and nightclubs as long as you are careful about how you go and come back," he says. "Unfortunately, many people ask advice from colleagues or their hotel concierges and then don't follow it. If something goes wrong, in many cases it could have been avoided."

For the most perilous destinations, Norman Ryan offers the following checklist of precautions:

- Be quite sure that your visit is essential;
- Make sure your passport, visas and immunisations are up to date and spot on;
- Be certain of the arrangements for meeting you at the airport, and do not venture out of the airport compound under any circumstances;
- Remove anything from the outside of your baggage that will identify you, your rank or your company;
- Take hand-luggage only – anything you put in the aircraft's hold could well be stolen;
- Don't take laptops or cameras unless essential;
- Dress down unless you really have to look smart;
- Don't take local taxis;
- Take as little cash as possible, but remember that some things have to be paid for with cash;
- Don't walk the streets, particularly at night;
- Arrange for people to come and see you rather than the other way round;
- Always consult security advisers, whether in-house or not;
- Advise your family that you are unlikely to be able to phone them while away. If you fail to call, they will not panic; if you do call, it will be a bonus;
- Take along a medical kit, including clean syringes.

To add to the above list, Control Risks also recommends leaving your rank and company name off faxes, and waiting until your last day in the country if you want to call a press conference.

Travellers with sufficient clout might consider enlisting the help of the local military if their company is important enough. "After all, they do want your investment," says Grose. "A convoy is useful, or you might ask for a helicopter if it is a very quick visit."

The hot spots

Where you should not go

Algeria
[redacted]
Jammu & Kashmir regions of India
[redacted]
Liberia
[redacted]
Somalia
[redacted]

Regions to avoid unless you are on essential business

[redacted]
Bosnia
[redacted]
Rwanda
[redacted]
Tajikistan
[redacted]

Source: UK Foreign Office

Top tips for three cities

With the maze of fares, routes and means of transport between London and Paris and Brussels, it is a wonder anyone manages a reasonably painless and not outrageously expensive cross-channel trip.

However, the launch of a comprehensive *Cross-Channel Travel Guide* for London-Paris travel, and the updating of its companion, the *Cross-Channel Travel Guide* for London-Brussels, should make it easier.

Both guides, published as sturdy briefcase-sized leaflets, have airline and Eurostar timetables listing flight codes and fares for all airports and rail stations, as well as travel tips for the three cities.

Michael Berendt, a European policy adviser who publishes the guides, says he updates them quarterly but sometimes more often. He started the guides two years ago with a Brussels leaflet when he began travelling regularly between London and the Belgian capital.

The two guides also come with a third leaflet listing every phone number you will ever need, including airline, airport and ferry numbers, motoring organisations, and a diagram of Paris rail connections, the Brussels metro network and a map of main EU area in the Euro-capital.

Perhaps most useful, however, are the transport tips covering things you wish someone had told you before you embarked on a journey by public transport. For example:

- "The Piccadilly Line [the London Underground link to Heathrow airport] is the simplest means of public transport, but it is not quick. The outward journey from central London to Terminal One can take as long as an hour." Travellers are advised to investigate coach services, which are supposed to be quite speedy.
- Hints for getting between downtown Brussels and Zaventem airport include notes on the rail schedule. The guide adds: "There are almost no bus services at Zaventem; taxi is the main alternative to the train. In the morning rush hour this can mean a long queue."

The guide even includes a warning about Brussels taxi touts. "The pirate taxi drivers who tout for custom in the arrivals hall can cost a good deal more [than the official fare of about BFr1,110]," it says.

The annual subscription cost is £13.50, or FFr175 or BFr1,050. For more information, write to: PO Box 37, London WC2A 1QD, or fax 0171 628 7960 in the UK or 02 772 3641 in Belgium.

Kate Bevan

ARTS

OPENINGS

GRANADA

This year's Granada festival honours Manuel de Falla (left) on the 50th anniversary of his death. The opening concert by the Madrid Symphony Orchestra on Friday includes "Nights in the Garden of Spain", and the following two weeks bring stagings of his operas and ballets, a recital by Victoria de los Angeles (far left) and performances of the music which most influenced him.

PARIS

Simon Rattle (right) brings his City of Birmingham Symphony Orchestra to the Châtelet this week for what is billed as the Paris premiere of "Jenufa", Janáček's most widely played opera. It is staged by one of France's brightest theatrical talents, Stéphane Braunschweig, and the cast includes Nancy Gustafson, Anja Silja, Philip Langridge and Graham Clark. There are six performances, starting on Thursday.

WEIMAR

Best known for its weighty role in German artistic and political history, Weimar is trying to shake off its conservative image as it prepares to take on the mantle of European City of Culture in 1999. The Landesmuseum is doing its bit by mounting an exhibition of work by young international artists of the 1990s, including Douglas Gordon from Scotland and Matthew Barney from the US. The show opens on Sunday.

BARCELONA

An exhibition illustrating the architectural interests of Salvador Dalí (right) opens on Wednesday at the Fundació Caixa de Catalunya. With 27 oil paintings and more than 100 drawings, it examines Dalí's interior designs, including his house at Portlligat in which he realised his particular architectural ideals.

LONDON

Two events on Saturday lift the curtain on London's musical summer. English National Opera stages Hans Werner Henze's "The Prince of Homburg" at the Coliseum – the first time the work will have been seen in the UK since the Hamburg State Opera brought its premiere production to Sadler's Wells in 1962. "Meltdown", the South Bank Centre's annual fortnight of experimental music, opens with a concert of contemporary Finnish music starring Magnus Lindberg and Esa-Pekka Salonen (above).

Why music won't change politics

Hans Werner Henze tells **Andrew Clark** why he has altered his views

Few 20th century musicians have struggled more passionately to close the gap between art and politics than Hans Werner Henze, whose opera *The Prince of Homburg* comes to London on Saturday. And few are better equipped to expound on the powers and limitations of the creative artist.

The artist, says Henze, will always exist on the fringe of society. "That's why his interventions are often clumsy and inappropriate. The artist has no interest in addressing mass rallies, attending committee meetings or trying to persuade people. Music has no political function, it can only do what is within its power. Its function is aesthetic – to arouse emotions, calm souls and ennoble the human spirit."

Coming from a composer who was once notorious for his left-wing political activism, such words will doubtless raise a few eyebrows, especially in his native Germany. But they are entirely concordant with the evolution of Henze's life and thought. He may no longer trust the power of music to change the world, but he still believes in its ability to nurture mankind's better nature. He has devoted his life to the cause.

As he approaches his 70th birthday on July 1, Henze is in contemplative mood. The hot-eyed radicalism of his younger years has long departed. He has given up all active involvement as a performer and educator. He travels little, preferring to tend the trees and vines he planted 40 years ago at his villa in the Alban hills south of Rome. And he has been summarising his life's work in an autobiography, to be published later this year.

The mantle of soft-spoken seer seems to suit the septuagenarian Henze. "I live very well in the country. I love the classical Italian landscape," he says. "And I feel as if I'm pulling together the experiences of my life into their essence, towards a kind of harmony. It's happening quite naturally – it has something to do with age, I suppose, and also with success. When time passes and events get more distant, you are better able to judge them with that distance."

But it would be wrong to assume that Henze's creative fires have dimmed: isolation has only served to quicken his output of vast scores. A new orchestral work comes to the Proms in August. His latest opera, *Venus and Adonis*, will be premiered in Munich in January, and he has promised his Ninth Symphony to the Berlin Philharmonic.

Nor has he entirely shut himself off from the world. Bronzed and relaxed, he was clearly enjoying himself in Aldeburgh last week, meeting old friends, attending rehearsals and recalling his first visit to the festival in 1959. This week he and his longtime companion, Fausto Moroni, will be attending the first night of *The Prince of Homburg* at English National Opera – one of many 70th birthday tributes across Europe.

'Music's function is aesthetic – to arouse emotions and ennoble the human spirit'

The recent success of *Homburg* has taken him by surprise. Based on an early 19th-century play by Kleist, the opera was premiered in Hamburg in 1960, in a production which briefly visited Sadler's Wells two years later. But it was coolly received and lay dormant until Nikolaus Lehnhoff staged it in Munich in 1992. That production's success, with a revised, more transparent orchestration, has since taken it to Zurich, Antwerp, Charlestown – and now London. Three other productions are scheduled for Germany next year.

Homburg focuses on the timeless conflict between individual freedom and the law: its hero is a dreamer-prince who fails to carry out military orders. The music is notable for its poignant lyricism, its emotional power, its plasticity and swift *durchkomponiert* quality. Henze's effects are piquant and refreshingly un-Expressionist, with none of the meandering, heavy-textured baggage and aesthetic hedonism that mar so much of his later work. *Homburg* is the *perfect marriage* of intellect and feeling, of Henze's German heritage and the cool sensuousness of his adopted Italy.

So it comes as a surprise to discover he was virtually blackmailed into writing it. His mentor, Luchino Visconti, had been much impressed by the Kleist play and wanted to stage it. He also suspected it would make a good opera, and that Henze was ideally equipped for the task. Was it the anti-war theme that attracted Henze, whose fervent anti-militarism stems from his uncomfortable experiences under the Nazis?

"Not at all. I told Visconti a German composer could never turn it into an opera, because the play is music already, and you need all your time to keep up with the fantastic sweep of images the poet has composed. Visconti then said that if I refused, our friendship was over. And he was serious. He was a tyrant, but he was also a remarkable director, especially of opera. So I had to do it."

Henze retired to Naples and the sympathetic counsel of the poet Ingeborg Bachmann, whose experience of cutting literary texts for Austrian Radio made her the ideal collaborator. Despite axing half of Kleist's lines, she preserved the play's spirit – and Henze set to work. As he recalls, "it was the period when the Darmstadt school of serialism was turning to the world of rhythm. I wrote as strictly as possible, so that even the vocal material stemmed from the same basic rhythmic patterns."

This was no easy task, and the opera's early interpreters mastered their lines with difficulty. Nearly 40 years later, Henze says he is taken aback at how naturally musicians have adapted to the idiom, "and something comes out which I always proclaimed was there but nobody noticed – a kind of Verdian vigour and severity, which of course is very much in the book. It was also interesting to create two opposing worlds: the strict world of militarism, the order and honour of the soldier on the one hand, represented by serialism; and on the other, the somnambulism, the ecstasies of a dreamer, the disobedience, which has a completely different kind of music. I think the contrast enriches the opera."

Homburg exemplifies the strong literary hinterland of much of Henze's work. Shakespeare was the inspiration for *Venus and Adonis* and the Eighth Symphony, while Anna Seghers's novel *The Seventh Cross* provides the text for the Ninth. Here we find Henze on familiar ground, haunted by guilt for Germany's past: a group of young anti-Nazis escapes from a concentration camp, and all but one are captured and die.

The symphony is cast in seven movements, with words sung by a chorus. What attracted him to Seghers's book? "Well, there's a tradition that a Ninth Symphony has a message, and I'm building a monument for the German anti-fascists. Nobody ever did that, they've been forgotten. Thousands of Germans died for their ideas. The one who gets away is rescued by a Dutch boatman and survives. That's the message – there's some hope."

Although Henze confesses to feeling uncomfortable in Germany, he has never been able to escape his German musical inheritance. Will he attempt what his greatest forebears never achieved – a Tenth Symphony? He says he has no hang-ups about it, preferring to look on his symphonically-conceived opera *The Bassarids* – to be revived at the Met in 1998 – as his Tenth.

It was the premiere of *The Bassarids* 30 years ago which prompted the influential German critic H.H. Stuckenschmidt to hail Henze as Richard Strauss's true successor. Henze was appalled, and to this day he hates Strauss's music. But he is clearly flattered by association with Mahler, who haunts *The Bassarids* and the Seventh Symphony. He describes Mahler's music as "the most wonderful since Mozart".

He resists the notion of a *fin-de-siècle* mood infecting late 20th-century culture in the way it did Mahler's time, describing the millennium as "just another day. What I do hope is that the values of European civilisation will be respected more in the next century than they have been in this, and that there will be more understanding of music. This is the ideal I have been nourishing for some time."

With a whimsical look, he quotes Stravinsky's dictum that "music helps to improve morals". And does he agree? Henze's face straightens. "Yes, I do. The more people learn about music, particularly in schools, the more non-violent they will be, the more they will know there is something like the soul, and the more they will discover their own creativity."

Ella Fitzgerald

First lady of song

"One night, scuffling around *Harlem, I fell in the Savoy.* After dancing a couple of *rounds,* I heard a voice that sent chills up my spine. I almost ran to the stand to find out who belonged to the voice and saw a pleasant looking, brown-skinned girl standing modestly and singing the greatest. I was told her name was Ella Fitzgerald and that Chick Webb had unearthed her from one of the Apollo's Amateur Hours."

So said the pianist/arranger Mary Lou Williams, describing her first encounter with the teenager who would become America's first lady of popular song. Fitzgerald died at home in Beverly Hills on Saturday at the age of 78.

Born in Newport News, Virginia, Ella Fitzgerald was brought up in a multi-racial borough of Yonkers, just north of New York city, by her mother and Portuguese stepfather. A keen street corner dancer, her mother entered her in an amateur night contest at the local Apollo. On the night, paralysed by fear, she instinctively sang her mother's favourite tune – "The Object of My Affection" – instead of dancing.

She won the first prize and was spotted by altoist Benny Carter who introduced her to Chick Webb. Immediately prior to her first fateful engagement her mother had a car accident and suffered head injuries from which she never recovered: she died just as her daughter's career was beginning. Fitzgerald was 15 and the aggressive little hunchback drummer who would become her guardian until his death from TB six years later in 1939, was 24.

In 1938, Fitzgerald recorded "A-Tisket, A-Tasket" with Webb and shot to fame. The young Fitzgerald, now a national star, continued to lead Webb's orchestra for three years after his death. After turning solo she signed up with Norman Granz's Jazz at the Philharmonic, touring with Oscar Peterson, Dizzy Gillespie, Illinois Jacquet and Gene Krupa.

When her contract with Decca expired in 1956, she moved to her mentor Granz's new Verve label and, on the basis of a handshake contract, embarked on a series of recordings which would become a part of popular music history. The classic "songbook" albums were devoted to the work of composers Harold Arlen, Irving Berlin, Duke Ellington, George and Ira Gershwin, Jerome Kern, Johnny Mercer, Cole Porter and Rodgers and Hart.

The combination of her crystal clear diction, pure tone and relaxed swinging, harnessed to the best writing by superior arrangement assured the series, and everything that followed, enduring success.

Self-assured, almost matronly, on stage, Fitzgerald was self-critical to the point of insecurity when off it. Frank Sinatra once commented that that she didn't know how to breathe and her phrasing was all wrong: "I was so upset by that, I really couldn't sing for a week," she told jazz-writer Leonard Feather. But sing she did and, like Sinatra, always made the most of the best material: whether pressing on the rhythm of classic scorchers like "How High The Moon", cheekily improvising the lyric of a swinging "Mack The Knife" or innocently negotiating the fine musical nuance of a Gershwin ballad.

Jazz genius: Ella Fitzgerald

Less operatic than Sarah Vaughan and without the world weariness of Billie Holiday, the ingenuous delivery that launched her novelty songs remained unhardened until towards the end of her career when her tone took on a more abrasive edge. But what she lacked in emotional depth she more than compensated for in vocal range, musicality and helter-skelter powers of improvisation.

A series of duets with Louis Armstrong, followed by TV appearances with the popular singers of the Sixties, broadened her popularity further; festival and concert hall cabaret touring sustained it up until late 1986 when failing eye-sight and heart trouble took her into semi-retirement. She returned in 1987 but continuing ill-health left her housebound in Beverly Hills until her death.

She was married to bassist Ray Brown between 1948 and 1952 with whom she had a son, Ray.

Garry Booth

INTERNATIONAL ARTS GUIDE

■ BERLIN

CONCERT
Deutsche Oper Berlin
Tel: 49-30-3438401
● René Kollo: concert on the occasion of the 30th anniversary of the tenor's stage debut. With the Orchester der Deutschen Oper Berlin and soprano Karan Armstrong. The programme includes works by Wagner and others; 8pm; Jun 19

EXHIBITION
Berlinische Galerie - Martin-Gropius-Bau Tel: 49-30-254860
● Anne Ratkowski - Eine vergessene Künstlerin der Novembergruppe: exhibition devoted to the work of the German painter Anne Ratkowski, a member of the Novembergruppe, a movement of Expressionist artists formed in Berlin in 1918. The display includes still lifes and portraits; to Oct 13

■ BOLOGNA

EXHIBITION
Galleria d' Arte Moderna
Tel: 39-51-502859
● Gilbert & George: an Anthology: retrospective exhibition devoted to the work of the British artist-duo Gilbert & George. The display includes some 100 large works from the 1970s to the present; to Sep 8

■ BONN

EXHIBITION
Kunstmuseum Bonn
Tel: 49-228-776121
● Albert Renger-Patzsch - das Spätwerk. Bäume, Landschaften, Gestein: exhibition of works by photographer Albert Renger-Patzsch (1897-1966) from the latter part of his artistic career. The greater part of the works on display was created in the 1960's. The exhibits include photographs of trees, stones and landscapes; to Jun 16

■ BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267-9300
● Lithography's First Half Century: The Age of Goya and Delacroix: in celebration of the 200th anniversary of the invention of lithography by Bavarian actor and playwright Aloys Senefelder, the exhibition examines lithographs by artists such as Delacroix and Goya. Works by lesser known artists and prominent artists not usually associated with the medium are also displayed; to Jul 7

■ BRUSSELS

OPERA
Théâtre Royal de la Monnaie
Tel: 32-2-2291200
● Carmen: by Bizet. Conducted by Bertand de Billy and performed by La Monnaie. Soloists include Randi Stene, Cesar Hernandez, Barbara Bonney and Mark S. Doss; 7.30pm; Jun 19

■ COPENHAGEN

EXHIBITION
Ny Carlsberg Glypothek
Tel: 45-33 41 81 41
● Byzantium. Late Antique and Byzantine Art in Scandinavian Collections: this exhibition brings together more than 100 objects from Uppsala, Stockholm, Oslo, Helsinki, Copenhagen and Odense. The display includes late Roman imperial portraits, Coptic textiles and limestone reliefs, late Antique and Byzantine coins, pendants and manuscripts from the middle Byzantine period; to Aug 31

■ DRESDEN

OPERA
Sächsische Staatsoper Dresden
Tel: 49-351-49110
● Nabucco: by Verdi. Conducted by John Fiore and performed by the Sächsische Staatsoper Dresden. Soloists include Hans-Joachim Ketelsen, Tom Martinsen, Danilo Rigosa and Soja Smoljaninova; 7pm; Jun 19

■ GLASGOW

AUCTION
Christie's Scotland
Tel: 44-141-3328134
● Paintings, Drawings and Sculpture by William Johnstone (1897-1981): this sale, which combines property from different sources, represents the career of this British Abstract expressionist whose inspiration was the distinctive form of the Border landscape of his childhood; 2pm; Jun 18

■ HAMBURG

CONCERT
Hamburgische Staatsoper
Tel: 49-40-351721
● Hamburg Ballett: perform George Balanchine's Violin Concerto to music by Stravinsky and Theme and Variations to music by Tchaikovsky, and John Neumeier's Petrushka to music by Stravinsky; 7.30pm; Jun 18

■ LONDON

CONCERT
Wigmore Hall Tel: 44-171-9352141
● Dubravka Tomsic: the pianist performs works by Scarlatti, Beethoven, Ravel and Srebotnjak; 7.30pm; Jun 19

EXHIBITION
British Museum
Tel: 44-171-6361555
● Vases and Volcanoes: Sir William Hamilton and his collection: exhibition focusing on the 18th-century antiquary, connoisseur and natural historian Sir William Hamilton (1730-1803). The exhibition includes sculptures, bronzes, gold jewellery, carved gemstones, painted Greek vases, paintings and drawings; to Jul 14

■ MADRID

EXHIBITION
Palacio de Velázquez
Tel: 34-1-573-62-45
● Nuevas Abstracciones: this exhibition of about 60 paintings by 29 international artists focuses on new forms of abstraction in the post-modern period; to Jun 23

■ MUNICH

CONCERT
Philharmonie im Gasteig
Tel: 49-89-48098625
● Symphony No.8: by Bruckner. Performed by the Wiener Symphoniker with conductor Rafael Frühbeck de Burgos; 8pm; Jun 18

■ NEW YORK

AUCTION
Christies, Manson & Woods International, Inc.
Tel: 1-212-546-1000
● Important American Furniture, Silver, Folk Art and Decorative Arts: this annual spring sale comprises a selection of offerings from private collections; 10am; Jun 19

EXHIBITION
The Jewish Museum
Tel: 1-212-423-3200
● Marc Chagall 1907-1917: this exhibition of paintings, gouaches and drawings provides an overview of Marc Chagall's early career; to Aug 4

Whitney Museum of American Art
Tel: 1-212-570-3600
● Shigeko Kubota: exhibition featuring a new installation of metal, mirror, video, and motorized sculptures, created between 1992 and 1996 by Shigeko Kubota; from Jun 19 to Aug 25

■ PARIS

OPERA
L'Opéra de Paris Bastille
Tel: 33-1 44 73 13 99
● Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella and performed by the Opéra National de Paris. Soloists include Roberto Frontali and Andrea Rost; 7.30pm; Jun 19

■ SAN FRANCISCO

EXHIBITION
SFMOMA - Museum of Modern Art
Tel: 1-415-357-4000
● Alfred Stieglitz at Lake George: this exhibition of approximately 100 works investigates the late work of the American photographer Alfred Stieglitz; from Jun 20 to Sep 22

■ TORONTO

MUSICAL
O'Keefe Centre for the Performing Arts Tel: 1-416-393-7474
● Fiddler on the Roof: by Joseph Stein. Directed by Jerome Robbins. The cast includes Theodore Bikel; Tue - Sat 8pm, Sun 2pm, Thu, Sat also 2pm; from Jun 18 to Jun 23

■ WASHINGTON

THEATRE
Eisenhower Theater
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● Second City 'Truth, Justice or the American Way': an evening of comedy featuring a compilation of skits, songs and improvisations performed by the Second City National Touring Company; Tue - Fri 7.30pm, Sat 6pm & 9pm, Sun 3pm & 6pm; from Jun 18 to Jun 23

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Michael Prowse · America

Boardroom virtue

Corporate downsizing is beneficial because it is promoting a recovery in the share of profits in national income

You will have heard the conventional wisdom. Top US executives are wedded to a mindless policy of "downsizing". They are incessantly seeking ways to restructure operations, cut costs and eliminate jobs. They care about nothing except the short-term interests of shareholders.

This is certainly the view of President Clinton, who is trying to shame top executives into adopting a broader view of their "social responsibilities". Even on Wall Street, voices are now heard arguing that shareholders have been unfairly favoured at the expense of workers. Having spent years lauding the efficiency gains from restructuring, Mr Stephen Roach, an economist at Morgan Stanley, the investment bank, recently reversed his earlier stance, and declared that downsizing had gone too far.

In Europe, most pundits appear to regard Mr Roach's apostasy as justified. People seem to take it for granted that US executives are callous and short-sighted.

I remain deeply puzzled by this conventional wisdom. In strict employment terms, it has always been nonsensical to talk of downsizing. Far from unfairly cutting jobs, US industry is "upsizing" at an astounding rate: job losses at Fortune 500 companies are more than offset by the new positions created by small and medium-sized companies. The US jobless rate is 5.6 per cent. Nonfarm employment has risen by 9.7m since Clinton took office and by 48.3m (or 68 per cent) since 1970. The chief executives who deserve censure reside in Europe, where employment has barely risen in a quarter century.

But critics will say I am missing the point. US companies may create plenty of jobs, but they are lousy, insecure jobs. And US companies have been cutting pay while earning excessive profits. The living standards of many workers have thus stagnated, or fallen, while rich investors have benefited from extraordinary gains in share prices. Income that rightly belongs to workers is thus being expropriated on a scale that would have shocked even Karl Marx.

Almost every statement in this familiar tirade is false. People are not being fired more frequently now than in the early 1980s. Most recent employment growth has been in sectors paying above-average wages. Total worker compensation (wages plus benefits) has risen steadily.

Shareholders are undeniably doing well. In a recent paper*, Ms Jill Jacobs of Goldman Sachs estimates that the share of profits in gross domestic product rose from 4.7 per cent in the first quarter of 1982 to 8.4 per cent by the end of last year. The share of labour income in GDP has declined noticeably.

But does this mean workers are being treated unfairly? It all depends on what constitutes "normal" profits. After numerous bouts of downsizing, the profit share is still much lower than in the "flower power" years of the late 1960s. Indeed, in the seven business cycles between 1937 and 1973, the profit share averaged 10 per cent of GDP. There were fluctuations but the profit share typically stayed within a band of 8-12 per cent of GDP. This suggests profits were artificially depressed in the early 1980s and are only just climbing back to "normal" levels.

Why did the profit share collapse in the 1970s? The most convincing explanation is that double-digit inflation undermined the general efficiency of business. When inflation is high, changes in relative prices, which convey vital economic information, are hard to distinguish from changes in the overall price level. Profits are overstated and companies consume, rather than enlarge, their capital. But there were other contributory causes, such as the slackness of management and the militancy of unions. As Ms Jacobs notes, union membership and work stoppages both reached all-time highs in the late 1970s. For a short period, workers were able to win increases in compensation in excess of productivity gains.

Taking a long view, the recent shift in income from workers to shareholders should not be viewed negatively. Corporate restructuring and downsizing are not proof of the moral bankruptcy of capitalism, but a necessary and desirable process whereby US industry rebuilds depleted financial muscle. Nor should the recovery in profits be regarded as benefiting only shareholders. Once the share of profits to GDP stabilises, wages will again grow in line with GDP. But GDP growth itself will be faster than it would have been had industry remained inefficient and the profit share depressed. Over the long run, therefore, higher profits will be good for workers as well as bosses.

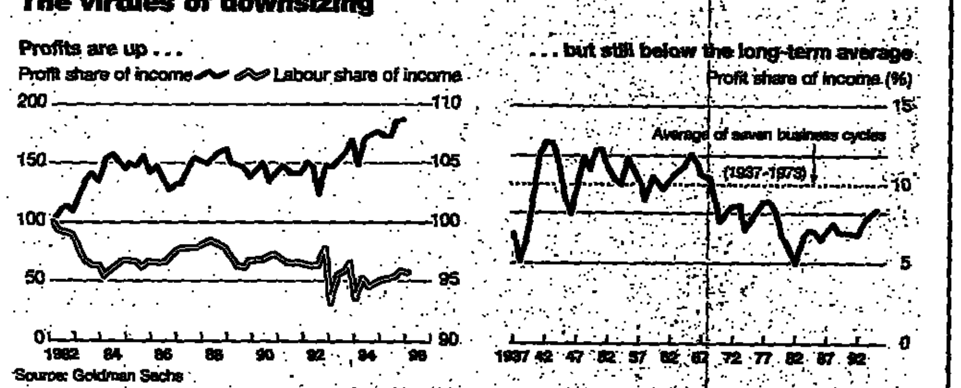
The good news is that less turbulent times are in prospect. The near doubling of the profit share since the early 1980s has understandably created social tensions. But it is mostly a one-off adjustment. The profit share might rise a few more percentage points, taking it to the upper limits of its historical range, but it is not going to double again. Indeed, there are good reasons for expecting it to level off.

When you consider what happened to the relative supply of capital and labour in the 1980s, it is hardly surprising that profits shot up. Investment was weak at a time when baby-boomers were pouring into the workforce in record numbers; the return on capital would have risen relative to that on labour even without downsizing.

This pressure is now abating. Business capital investment has soared since 1990. And the growth of the labour force has slowed sharply. Most industries – from steel to banking – have been through at least one bout of restructuring. When politicians complain about the social irresponsibility of business, they are thus behind the times. The scene is set for faster growth of wages and somewhat less buoyant equity markets.

Profits and Labor: the pendulum at rest. Goldman Sachs, One New York Plaza, New York, NY 10004.

The virtues of downsizing



Source: Goldman Sachs

LETTERS TO THE EDITOR

UK cannot have successful future as low-skill, low-wage economy

From Mr Jürgen Gehrels.

Sir, The government's recognition in the Skills Audit published on Thursday, that the UK still lags countries such as Germany, is, I feel, an honest appraisal and therefore a solid basis for improving the UK's competitive position ("Basic skills lag behind competitors", June 14).

Much more emphasis must be placed on vocational training. While the UK has a pool of highly talented graduate engineers and scientists, we find only too often that the skills of our broader workforce, particularly in shop-floor manufacturing, need to be improved.

This could be a potential barrier to future investment in the UK by international companies.

I am very encouraged that the government has identified this issue and is addressing it. One thing which has always puzzled me is why so many apprenticeship schemes have been abandoned in the UK. The German *dual* system has been the key to Germany's high-skill, and therefore high-wage, economy during the past few decades and will help it overcome some of the current structural difficulties in its economy.

Any beliefs that the way forward for Britain is as a low-skill, and therefore low-wage, economy are totally misfounded. The intellectual capital of this country will be vital for its future economic success and I believe a broader range of apprenticeship schemes in the UK could be an important element of this.

Having joined Siemens as an apprentice myself, and made steady progress as the company has made exceptional progress since, I must admit that I am perhaps a little biased in my view.

Jürgen Gehrels,
chief executive,
Siemens plc,
Siemens House,
Oldbury,
Bracknell,
Berkshire RG12 8FZ, UK

Financing at risk because of loophole

From Mr Martin Laing.

Sir, I was saddened but not surprised to read Andrew Adonis' report ("Hospital projects under threat", June 10) that leading financiers are refusing to commit themselves to Private Finance Initiative projects in the UK health sector until the government gives further assurances regarding meeting the liabilities of National Health Service trusts.

I have led a number of construction industry delegations to talk to government about the Private Finance Initiative in recent months, and have generally received a very helpful and positive response.

But, as we have warned government, this issue is a genuine deal breaker. The problem is that health secretary Mr Stephen Dorrell's new NHS (Residual Liabilities) Bill operates only where a trust "ceases to exist". It does not address the position where a trust gets into financial difficulties but does not cease to exist because the secretary of state does not exercise his discretion to dissolve it.

While such a loophole exists, it is hardly surprising that major financial institutions will refuse to commit themselves to the significant investment involved in these projects.

If the secretary of state were prepared to give an undertaking that he would exercise his discretion in the appropriate circumstances this major obstacle to the successful conclusion of these vital contracts would be removed and real progress on PFI in the health sector could be achieved.

Martin Laing,
chairman, Construction Industry Employers Council;
chairman, John Laing plc,
82 New Cavendish Street,
London W1M 8AD, UK

Right if curb is imposed on judges

From Miss Barbara Hewson.

Sir, I disagree with the views expressed by Mr Keith Wedmore in his letter "Leave judges' role alone" (June 10). I believe the home secretary is entitled to impose restrictions on judges' sentencing powers, if that is the will of parliament. At present, the judges do not appear to enjoy public confidence in their approach to serious repeat offenders, and the home secretary is right to do something about this.

Moreover, I believe that those who attack the home secretary's proposals have presented a somewhat partial view of the judge's role in sentencing. There is always a tension in legal systems between those who prefer legal certainty and those who favour the exercise of discretion. In the UK, there are various fixed penalties in crime, from parking fines to murder. It is wrong to suggest that fixed penalties are unconstitutional *per se*. Besides, they favour legal certainty, and there is nothing inherently wrong with that.

Too much discretion, by contrast, can lead to unsatisfactory decision-making. This is neither just, nor in the public interest. It is perfectly legitimate to say that criminals who repeatedly carry out very serious offences should forfeit any expectation that judicial discretion can apply to them, and should instead enjoy the legal certainty of an extended prison term.

Miss Barbara Hewson,
barrister,
12 Gray's Inn Square,
Gray's Inn,
London WC1R 5JP, UK

Economics of rights issues

From Prof Paul Marsh.

Sir, Lex ("UK pre-emption rights", June 11) implies that pre-emption rights are inflating the cost of capital because companies make rights issues "at a discount to the market price and pay a 2 per cent underwriting fee for the privilege".

This confuses two issues. Making rights issues at a discount does not raise the cost of capital. As explained in my article "Rights and wrongs when raising equity" (FT, May 24), a rights issue is essentially an issue of shares at the current market price, combined with a scrip (or capitalisation) issue. Varying the discount simply alters the scrip element, and thus cannot change the cost of capital.

Rights issues are equitable and cheap. They avoid the wealth losses to existing shareholders which arise when new shares are sold at a discount via a placing or general cash offer. And rights issue flotation costs are lower than for the alternative methods mentioned by Lex (book building, bought deals).

The 2 per cent underwriting fee is a separate issue. There is considerable evidence that sub-underwriters earn excess profits on the 1¼ per cent sub-underwriting portion of this fee. There are also grounds for questioning the ¾ per cent fee paid to the lead underwriter and broker. There is scope, therefore, for making rights issues even cheaper.

But, in any event, companies can already make deep discount, non-underwritten issues.

Relaxing pre-emption rights would be a move in the wrong direction – at least until alternative methods are demonstrably cheaper, and mechanisms are in place to prevent wealth losses to existing shareholders. To imply that pre-emption rights are a restrictive practice is akin to arguing that laws against theft are anti-competitive.

Paul Marsh,
professor of management and finance,
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London NW1 4SA, UK

BSE slaughter policy in UK incomprehensible

From Brigadier Thomas N. McMicking.

Sir, I write as a beef farmer with long experience of dealing with the Germans, to say how much I agree with your leading article "How to lose the beef war" (June 7).

Our Galloway herds did very well six years ago, when we were selling our Galloways to Germany. Ever since the BSE crisis started our exports of live young stock have been stopped. On the whole we farm extensively, as opposed to intensively, and I have never had a single case of BSE, nor have any of my neighbours.

It has always appeared to me that the Ministry of Agriculture, Fisheries and Food has bent over backwards to favour dairy herds where BSE has been most prevalent and that the dairy lobby has been able to influence MAFF out of all proportion to its real value.

My wife, who runs her own independent business, asked me why, when we had foot and mouth, there was a strict slaughter policy and now we have BSE we have an Anglo-Saxon compromise, a demi-semi slaughter policy, which is simply not understood by our fellow members of the EU. I was unable to give her a very clear reply.

I gather that the Germans simply cannot understand this 30 months slaughter policy. It has no scientific basis and I hear that my friends in the National Farmers Union may be behind it. Could this be more of the dairy lobby?

Thomas N. McMicking,
Miltonise,
Newluce,
Wigtownshire DG8 0LY, UK

Personal View · Daniel Hodson

A crucial place at the table

Britain must take the lead in talks on European monetary union to protect the City's interests

The Bank of England's recent report on the City's preparations for European economic and monetary union is naturally neutral on the merits of Emu itself. However it led me to two important conclusions.

First, the single currency will vitally affect the City whether the UK opts in or out of it, because the British financial services industry is so dominant in European markets. And second, it is therefore essential for Britain to remain at the Emu negotiating table to protect both UK interests and, in practice, those of Europe too.

City views on the merits and likelihood of monetary union vary. However the only prudent planning assumption is that it will go ahead on time. The UK industry must therefore be ready to grasp any opportunities that Emu offers.

Take the London International Financial Futures and Options Exchange (Liffe) as an example. Our futures contracts enable financial institutions and their clients to insure themselves against interest rate movements. As a result, corporate treasurers can protect profitability and jobs, and small businesses and individuals can fix loan rates and mortgages.

Many of these Liffe contracts are denominated in currencies which may join the monetary union – the D-Mark, the Italian lira, the pound sterling. If the single currency goes ahead, there would probably be a single short-term rate of interest across the Emu area – and hence a single short-term interest rate futures contract. This would be a major contract and a huge prize to the exchange that captures it.

However, there are several problems Liffe has had to confront if it is to succeed in seizing the opportunity. For instance, the British Bankers Association Interest Settlement Rate (BBAISR) is recognised as a key reference point for interest rates in D-Marks, Italian lira and other currencies as well as sterling. Will this continue to be a key reference rate after monetary union? We cannot be sure. But we have to finalise contracts now. We have put our faith in the London interbank rate.

Similarly, Liffe has had to consider how best to cope with the possibility of differences opening up between interest rates on short-term loans in domestic currencies and those on the euro.

> There are areas on which Liffe needs the government to continue to do battle for it in the councils of the European Union

This could arise, for instance, during the transitional period when the local currencies and the euro will operate in parallel in each participating member state. Divergence between the two rates could occur if the wholesale markets switch straight to euros, leaving only the retail markets in national currencies. Or it could happen if the markets think there is a serious risk of monetary union failing to be completed.

If there are two interest rates, which one should contracts be settled against? We have chosen to settle against the euro; but only if Emu goes ahead and the relevant currency is participating fully.

These are decisions for Liffe. There are other areas on which we need the government to continue to do battle for us in the councils of the European Union.

For example, the December 1995 European Council in Madrid decided that there should be "legally enforceable equivalence" between the participating national currencies and the euro. It is not yet clear to us what this means. What is needed is a legal obligation on each participating central bank to exchange its national currency for the euro in unlimited amounts – unconditionally and at zero or minimal cost. It is essential that UK ministers fight to ensure that the relevant European regulation, when drafted, achieves this effect.

Or take settlement. As the Bank of England report makes clear, it is vital that there is a direct link from the UK's real-time settlement system to corresponding systems in other Emu countries in Europe. If not, UK-based banks and financial institutions may find their ability to compete on equal terms when handling euro payments is undermined. British ministers must continue to insist on equal access to other countries' settlement systems.

Or take contract law. Many commentators now agree that European legislation is required to ensure that contracts cannot be terminated simply because they are denominated in a currency that has given way to the euro. However, European legislation does not apply in New York or Japan. Because so much US business in European financial instruments is done through London, the City would be hard hit by any uncertainty. British ministers need to press Brussels for active negotiations with authorities in non-EU countries to ensure that the switch to the euro does not undermine futures and options contracts.

The City generates £20bn in balance of payments earnings and more than 500,000 jobs. It is for the government to decide whether or not the UK should join the single currency and what European stance is in the national interest. But the City is entitled to ask the government to join in the discussions on the practical implications of monetary union.

The City's position as Europe's pre-eminent financial centre may be at stake. Getting that right is important to us all.

The author is chief executive of the London International Financial Futures and Options Exchange.

FINANCIAL TIMES

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Monday June 17 1996

Cold contempt for peace

In its bombing of Manchester city centre the IRA/Sinn Féin has shown callous contempt for the multi-party talks on the future of Northern Ireland chaired by Mr George Mitchell. Denied a place at the negotiating table unless they reinstated a ceasefire, IRA leaders have responded with yet more indiscriminate violence.

The bombing, which followed the IRA murder last week of a policeman in the Irish Republic, has raised speculation of a split between hardline terrorists and the political leadership of the Republican movement. Such theories are impossible to test. But, in refusing to condemn the latest outrage Mr Gerry Adams, the Sinn Féin president, has underlined again his organisation's inextricable ties with the IRA's military commanders.

Mr Adams's personal preference may well be for politics over violence. But Sinn Féin clearly puts unity among Republicans ahead of its oft-voiced conversion to the cause of democratic politics. The odds are that the latest outrage was being planned just as Mr Adams was campaigning in the recent Northern Ireland elections on a platform of peaceful negotiation. It is hard to believe that Sinn Féin would have been kept in ignorance of the IRA plan.

So, even if the IRA were now to announce the restoration of its ceasefire, it would be difficult to convince the constitutional parties in the province to give Sinn Féin a place at the negotiating table. Without the irrevocable commitment to peace demanded at the weekend by Mr John Bruton, the Irish prime minister, a new ceasefire would look now like a short-term tactical manoeuvre.

While refusing to give up all hope in the peace process, Mr Bruton has announced a necessary review of his government's links with Sinn Féin. One must assume that President Bill Clinton will do the same. There has been nothing dishonourable in the US administration's efforts to act as a broker in Northern Ireland. But it is difficult now to see how it could continue to allow Mr Adams a visa, or for money to be raised in the US to fund the cause of terrorism in the UK and Ireland. Others, too, including the media, must now reconsider their attitude towards the Republican movement.

It would be a mistake, though, to assume that the latest outrages have the support of the Catholic community in Northern Ireland. There is probably as much dismay in the nationalist Falls Road as in the unionist Shankhill at the prospect of renewed violence. Many who recently voted for Sinn Féin did so on the basis that it meant what it said about peace.

It is now up to those at the talks to harness that mood to the cause of an eventual political settlement. The opening week has not been heartening, with bickering over procedure obscuring the objective of an equitable agreement between unionists and nationalists. But if the negotiations ultimately fail, the IRA's bombers will in some part have succeeded.

Plague of rogues

Over a period of 10 years Mr Yasuo Hamanaka, the former chief copper trader of Sumitomo Corporation, managed to lose the equivalent of around $750,000 (£490,000) per working day. This may be a less rapid plunge into the red than that achieved by Mr Nick Leeson, whose $1.3bn dealing losses at Barings were also more devastating in their effect. But the failure to detect losses of $1.8bn over such a period in a company of Sumitomo's size and reputation remains scarcely believable.

Unlike Mr Toshihide Iguchi, who racked up $1.1bn of losses at Daiwa Bank's offices in New York, Mr Hamanaka was not working in some far-flung branch but under his bosses' noses in Japan. Again unlike Mr Iguchi, whose unauthorised deals were in US Treasury bonds, Mr Hamanaka was a very big player in a much smaller market. Indeed, Sumitomo had been criticised on the London Metal Exchange for stockpiling copper in the LME's warehouses, thereby squeezing the market. The mystery is that, if Mr Hamanaka really was forcing up prices, he should have been producing unauthorised profits, not losses. But attempts to establish a corner in metals markets have undone powerful players before now.

This is the second disaster in which a Japanese trader appears to have been in a position to falsify the records of his own trading, which suggests that financial discipline in Japan may rely excessively on the values of social cohesion and corporate loyalty rather than on watertight controls. The rampant individualism that now characterises the world markets does not sit easily with Japanese culture. So it is unsurprising if Japanese companies are wrong-footed in the mêlée.

Yet the lesson of Barings is that anyone can be vulnerable. And a striking feature of both the Barings and Daiwa losses was the absence of clear evidence that the traders gained personally. With Sumitomo it remains to be seen what the co-operative efforts of regulators across the globe will uncover. Yet there is little doubt that all three traders did make psychological gains. Their position as Mr Big, either in the market or in the office, mattered to them hugely. Traders' power fantasies may be as big a threat to shareholders as distorted incentives.

This is far more worrying for the stability of the financial system than the involvement of the hedge funds. As with sterling in the European exchange rate mechanism, the hedge fund managers here may simply have exposed the unsustainability of a copper price that was being unwittingly supported by one of Japan's larger corporate balance sheets. The recent volatility on the LME has not served the interests of producers and consumers. Until more is known about the forces behind these upheavals, any regulatory verdict must remain on hold.

Bosnian vote

A row about the timing of Bosnia's elections is laying bare some of the contradictions of the Dayton peace agreement, and the ambiguities of western policy.

The US wants elections leading to the creation of Bosnia-wide institutions to take place in mid-September. But the Organisation for Security and Co-operation in Europe, which will oversee the poll, has balked at this. Mr Flavio Cotti, the OSCE chairman, is understandably reluctant to certify that fair elections can take place when many of the terms laid down at Dayton have not been fulfilled. Very few of Bosnia's 2m displaced persons have gone home; non-nationalist parties continue to have difficulty in making themselves heard; and indicted war criminals are still at large, and exercising political influence.

Yet Mr Carl Bildt, the international mediator, is backing Washington's line. While the US administration's apparent motive is to assure American voters that Bosnia's peace process is on track, Mr Bildt has a different concern.

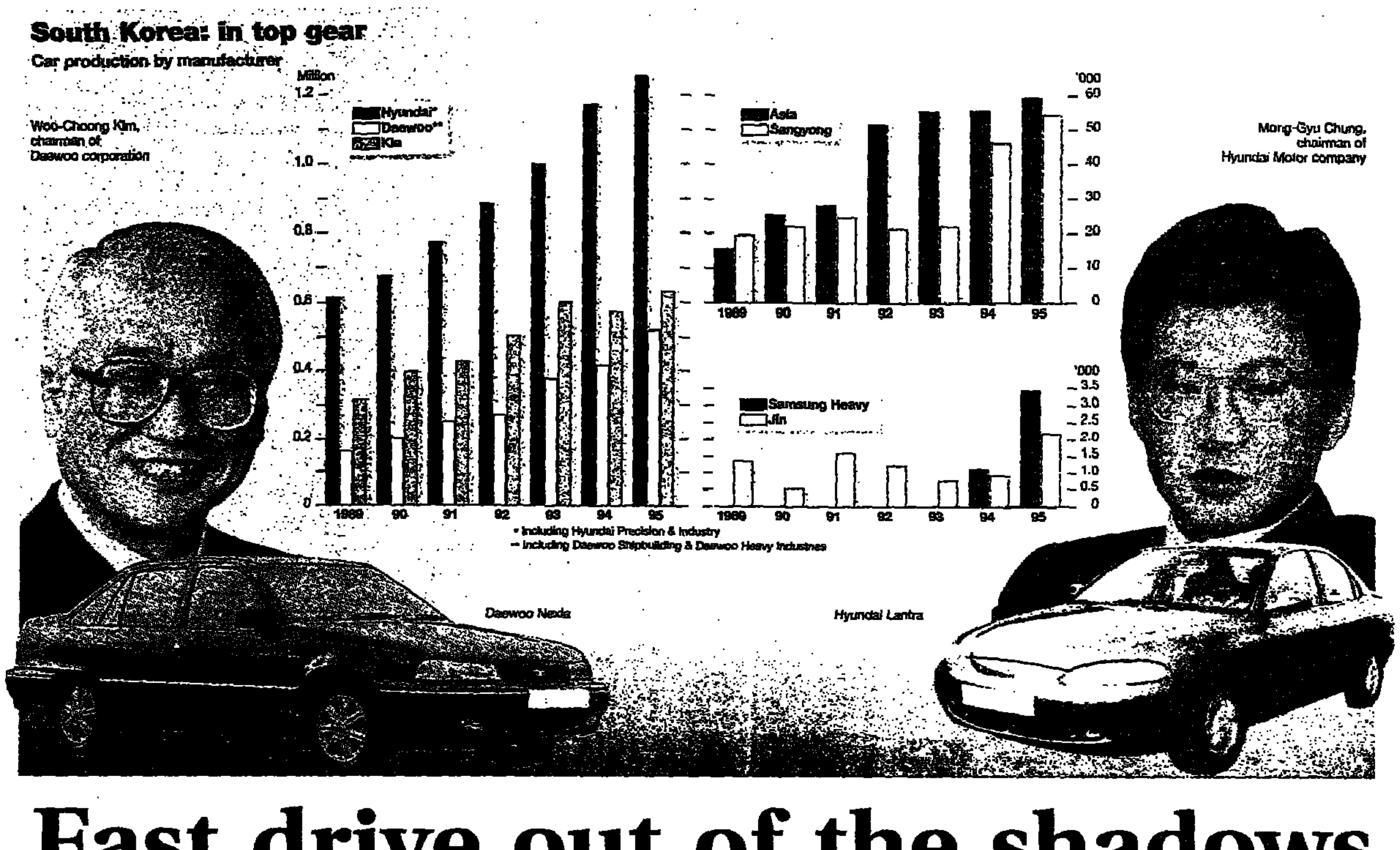
He believes that elections are needed to provide Bosnia with legitimate state institutions which can receive financial aid and be held responsible for distributing it fairly. Opponents of a September poll, who include many human rights lobbyists and the Moslem-led government, say rushing into elections will consolidate Bosnia's partition. But Mr Bildt's argument is that a poll must be held before cross-community reconstruction efforts, which are one of the best ways to overcome partition, can seriously begin.

If debates over Bosnia have regained some of their old acrimony, that is partly because some painful truths about the Dayton accord have resurfaced. The agreement is two things at once: a practical arrangement to enforce partition, and an idealistic plan to knit Bosnia together. While the first project has gone well, there is no procedure or timetable that would make the second one easy.

Whatever the drawbacks, the US will probably succeed in its aim of securing a September poll. But the exact date is less important than how the western world uses whatever time it has to promote those forces in Bosnia which favour reconciliation.

That involves facing down all the traditional parties, and actively encouraging those who are prepared to build bridges across ethnic lines. If western governments do not have the will or the funds, then non-government institutions should back or, if necessary, found independent broadcasting stations – and help moderate parties reach out to Bosnia's widely scattered refugees.

None of this would be simple. But the dream, implicit in the Dayton accord, of a reintegrated Bosnia will not be fulfilled by picking the right date for an election. It will be much harder than that.



Woo-Choong Kim, chairman of Daewoo corporation

Mong-Gyu Chung, chairman of Hyundai Motor company

Daewoo Nexia

Hyundai Lantra

Fast drive out of the shadows

Korea's carmakers have ambitious plans to bury their reputation as poor relatives of their Japanese rivals, says Haig Simonian

By early next century, there is a one in five chance the car you will be driving will be Korean. By 2010, South Korea's leading carmakers plan to invest $40bn (£26bn) on their vehicle subsidiaries to raise their output to at least 8m cars a year.

Hyundai, Daewoo and Samsung, the three leading manufacturers, each claim they will become one of the world's 10 biggest volume carmakers, putting them in the same bracket as established giants such as General Motors of the US and Toyota of Japan.

Such hyperbole is a feature of Korean business. "You must see these figures as ambitions rather than fixed targets in the western sense," says Mr Peter Dill, head of the automotive practice at Boston Consulting Group in Seoul.

But he cautions: "You would be foolish to dismiss them completely." By building vast new plants, buying in foreign talent and investing heavily in research and development, the companies are determined to overcome their reputation as poor relatives of the Japanese, making low quality, low-tech cars for low prices.

Korea's carmakers – subsidiaries of the country's leading chaebols (industrial conglomerates) – have come a long way since they began producing cheap Japanese and western models under licence in the 1960s. Hyundai, Daewoo, Kia and Ssangyong, the country's four car manufacturers, produced 2m passenger cars last year. This makes Korea the world's fifth biggest maker, behind France but ahead of Spain.

Hyundai Motor, the country's biggest carmaker which started by making Ford Cortinas, now turns out a car every 13 seconds at its Ulsan plant, the world's largest carmaking complex. It expects to invest more than $15bn on its plan to become one of the world's top 10 producers and plans to raise capacity from 1.45m cars a year to about 2.2m by early next century.

Daewoo Motor, the vehicles arm of Korea's third biggest chaebol, has even bolder plans. Its Vision 2000 envisages raising output which was 520,000 units last year to four times that level by 2000, investing at least $10bn. At full capacity early next century, its vast new Kunsan complex should be building well over 1m vehicles a year.

Even more ambitious are the plans of Samsung, the powerful electronics and industrial group which set up a carmaking subsidiary in 1994. It has bought sophisticated carmaking technology from Nissan, Japan's second biggest car company, which will allow it to create a modern and highly competitive range of vehicles. The group – which has enjoyed a surge in profits in recent years thanks to its electronic subsidiary's sales of semiconductors – says it will spend $16bn to build more than 2m vehicles a year by 2010.

However, the Korean carmakers face some formidable challenges before they can realise their dreams of ranking alongside GM or Toyota.

The first is rising costs after two decades of lightning expansion on the back of cheap labour and pliant unions. Korea's steadily increasing consumer prices, which have climbed five times faster than in Japan in the past five years and more than twice as quickly as in the US, have fuelled hefty wage rises. Bolstered by 1980s legislation granting workers the right to collective bargaining, average pay for assembly-line workers has soared to $2,000 a month.

In export markets, the Koreans are now facing the threat of competition from lower-cost producers in Malaysia and Indonesia. And the recent depreciation of the yen has restored some of the competitiveness of Japan's carmakers.

At the same time, Korea's breakneck industrial growth of the past decade, which produced rising domestic affluence and fed demand for cars, is slowing. Gross national product this year should increase by 7.5 per cent – high by western standards, but much lower than the double-digit rises of the mid-1980s. New car registrations increased by just 0.8 per cent last year and there are signs of market saturation.

Moreover, as barriers to imports fall, Korean drivers are buying more foreign cars. For years, Korean carmakers have been protected by a battery of import barriers, ranging from high tariffs to cumbersome bureaucracy and even the threat of tax audits for purchasers of luxury foreign models. Imports, at least of luxury vehicles, are now climbing sharply, albeit from a tiny base. The Boston Consulting Group reckons imports will reach 78,000 cars by 2000.

Although Korean cars have improved significantly in quality and performance, they remain dogged by a poor reputation compared with technologically superior vehicles from Japan, Europe and the US.

The main reason for this has been the limited number of small Korean component suppliers, few of which have the economies of scale needed to raise their technology and quality to the levels of manufacturers in other countries. "Local suppliers are well below world standards," says a local stockbroker.

The dearth of decent suppliers has forced Korea's carmakers to produce a higher proportion of components for themselves than the Japanese or the best European manufacturers. However, they can seldom match the costs of a specialist company, which has eroded their price advantage over the Japanese and others. The car companies also have a poor reputation for customer care and after-sales service. Few bothered much with either as long as domestic demand was so strong.

But all four Korean carmakers are expanding their ranges to make them more exciting and to offer greater choice. Mr Mong-Gyu Chung, Hyundai Motor's chairman, argues his company has already jazzed up its exterior styling.

Hyundai has just launched the Tiburon, Korea's first domestically built sports coupe. Sales exceeded 4,000 units in its four weeks on the market against plans to produce just 1,500. Kia, the second-biggest carmaker, will launch its own convertible next month. Hyundai also plans to introduce a mini car next year and a multi-purpose people carrier by 1998. Daewoo, which will launch the first of three new generation models this year, says it will have a 15-model range eventually.

And the carmakers are taking steps to improve quality by increasing spending on product development. Mr Chung recognises the need to increase the "driver appeal" of his vehicles and admits "quality is the biggest issue for us". Standards for noise, vibration and harshness – the key criteria for judging ride and passenger comfort in the industry – still lag behind Japan and Europe, he admits.

The biggest manufacturers are also taking steps to cushion themselves against rising domestic costs by following the Japanese example of building more cars abroad.

Daewoo, the most enterprising, has bought a clutch of decrepit car factories in eastern Europe and the former Soviet Union. Mr Woo-Choong Kim, its group chairman, says the old plants will be modernised and made competitive. Hyundai is also expanding into India, Turkey, Egypt and Botswana.

The overseas outposts will provide low-cost bases for regional markets, such as the central Asian countries of the former Soviet Union. And they will protect the Koreans against losing competitiveness if the won appreciates.

These plants could also help circumvent local tariff barriers. Daewoo's foreign rivals say it wrested favourable tariff terms on cars imported from Korea from countries such as Poland or Romania in return for promises of investment.

Mr Tae-Gou Kim, chairman of Daewoo Motor, confirms it has received favourable treatment. However, he argues the same concessions could have been achieved by any company taking on such risky investments in the first place. "I don't think that's very unusual. The concessions are not unique or considerable," he says.

He can point to the success of Daewoo in entering much tougher markets since the company dissolved its carmaking joint venture with GM in 1992 to go it alone. For example, its sales have rocketed in western Europe, a market it could enter only last year under the severance terms of its agreement with GM.

In the UK, Daewoo has recorded the fastest growth of any newcomer to the market since it opened for business in April 1995. It sold 18,000 cars in its first 12 months and took almost 1 per cent of the market.

Meanwhile, the Koreans will continue competing aggressively on price thanks to productivity improvements, such as modernisation of their older, less automated, car factories, which will partly mitigate their rising domestic costs.

And despite the unionisation of assembly line employees, they continue to work long hours. Korean motor employees work 50 per cent more hours than their counterparts in Germany, according to Mr Ulrich Bez, a former top executive at BMW and Porsche who is overseeing Daewoo's new car programme.

The Koreans' plans for growth may look far-fetched. But with their strong record of recent years, carmakers in other countries would be foolish to write off their ambitions.

· OBSERVER ·

Dream team, but no time

■ The Italian presidency is making a mad dash to wrap up EU business before the European summit in Florence on Friday. No wonder.

For most of the past six months, the presidency was virtually invisible – with Lamberto Dini a non-elected prime minister of a non-elected government.

The new left-wing government of Romano Prodi has moved fast to fill the void.

In the past fortnight, Prodi has been to Bonn, Paris, Brussels, London, and Washington. He has been blessed by Chancellor Helmut Kohl, anointed by President Jacques Chirac and fêted by President Bill Clinton at the White House.

Rather more taxing, he has tried to persuade John Major to play ball in the beef crisis, and announced plans for Italy to rejoin the Exchange Rate Mechanism by the end of the year.

Meanwhile Dini, now foreign minister, has whizzed round the Balkans, and chairs today's special session of EU foreign ministers in Rome.

And Carlo Azeglio Ciampi, another ex-prime minister, who has replaced Dini as treasury minister, is negotiating the lira's re-entry into the ERM.

The Prodi-Dini-Ciampi team must be one of the strongest Italian line-ups in years, but it has had barely a month to show what it can do running Europe. Hardly the way to make life easy, for themselves or other governments. But that has rarely been the mission of any presidency.

Bottle battle

■ What is behind Boris Yeltsin's astonishingly feisty performance during the Russian election campaign?

He pulled himself together more than his supporters dared hope. Indeed, he was almost back to the figure of five years ago, who clambered atop a tank outside the Russian parliament to address his supporters.

The answer, according to visiting dignitaries with a close eye on the workings of the campaign, is his abstinence from the vodka bottle. Not entirely voluntary, by all accounts.

Waiters had been instructed to place a glass of juice on all trays of drinks – and to make sure that all glasses filled with alcoholic brews were pressed on guests before the tray reached the president.

And his family had a central role in the campaign. Keeping the drinks cabinet locked.

Forward march

■ Governments of the world, beware. Maria Cattaui has just landed the secretary-generalship of the International Chamber of Commerce, the Paris-based global lobby for business interests.

It has not taken Cattaui long to find her feet since being squeezed out in February from the World Economic Forum, the organisation behind the schmoozerama for top business and government types that takes over the Swiss ski resort of Davos every winter.

So how much does the hitherto rather low-profile ICC know about the woman who ruled the day-to-day operations of the WEF with an iron hand for 15 years? "We expect her to introduce a great deal of dynamism to the ICC," says a spokesman.

The Chinese will be among the first to feel the Cattaui style. The ICC is holding its next world congress in Shanghai in April 1997. Expect military precision.

Homesick

Who says people on Wall Street prefer money to friendship? Jack Kirnan, a leading auto stock analyst, resigned from his job at Salomon Brothers last Monday to take up a job with Merrill Lynch, a rival investment bank.

Yet by Friday Kirnan was pining for his old friends and rang Salomon to beg to return. He felt homesick, he said, a condition which, according to the rumours, a fatter pay cheque from Merrill could not cure.

Jim Crandell, head of research at Salomon, said Kirnan even offered to wash floors or shine shoes if only he could come back.

Salomon rehired him on the same terms he had had before, returning as a managing director and with the same compensation package. Within minutes he was back at Salomon and was greeted with applause when he appeared on the trading floor.

Meanwhile, there were some red faces round at Merrill. It had only that morning confirmed to the Dow Jones news wire that it had hired Kirnan. He had been recruited to replace Harvey Heinbach, Merrill's auto analyst who is retiring this month.

Kirnan joined Salomon in 1992, after six years at Kidder Peabody. Before that he worked at . . . Merrill Lynch.

Copper-bottomed

■ Daiwa Bank, which suffered a $1.1bn loss courtesy of Toshihide Iguchi's activities in the New York branch, is introducing an early retirement plan from September – for workers who have given the company more than 10 years' service. Anyone over 30 may apply.

A long time to wait for senior citizen status. Meanwhile, stand by all you twentysomethings at Sumitomo.

The Financial Times

100 years ago

Orange Free State

The rejection by the Free State Volksraad of the convention between Cape Colony and the Free State, whereby the Cape undertakes the construction of the Free State railways to the grain districts, is undeniably a rebuff to the Cape. The rejection is entirely the work of President Steyn, who, in submitting the convention to the Raad, said that he preferred to see the Free State build its own lines, and subsequently urged expropriation of existing railway, as it would give the State more power in South Africa.

50 years ago

Rising Output in France

Labour's claim for an all-round 25 per cent increase in wages on the ground that industrial production has doubled since liberation has served to instigate comparisons between the present level of activity and that of 1938. They reveal a considerable improvement mainly dating from the termination of the European war. Output of coal and electricity as well as railway materials, rayon, certain types of glass and motor lorries exceeds that of pre-war. Railway truck loadings in recent weeks register 80 per cent of those in 1938, but on the other hand steel output is only around 60 per cent, and oil refining and silk weaving have not yet attained 50 per cent.

FINANCIAL TIMES
Monday June 17 1996

States facing delay may win partial membership

Brussels sees E European nations in EU from 2002

By Lionel Barber in Brussels

The European Commission has identified 2002 as the earliest probable date for accession of former communist countries in central and eastern Europe to the European Union.

There were widespread hopes that the first wave of countries would be admitted in 2000, but the presumption in Brussels now is that an advance guard of the Czech Republic, Poland and Hungary will not join until at least 2002.

Economically advanced Malta and Cyprus have also applied for membership and are pressing to be in the first wave, along with Slovenia and Estonia.

Disappointed candidates may be offered partial or "semi-permanent" membership, according to plans under discussion between France and Germany.

The consensus in Brussels, Bonn and Paris is that enlargement should proceed in phases, in line with the economic strength and political maturity of candidates, rather than a single leap to a union of 25-plus members, according to senior EU diplomats.

The later timetable also reflects concerns in Germany, the champion of EU expansion, which has found the costs of absorbing east Germany to be far higher than envisaged.

One serious difficulty facing the EU is how to prevent tension between neighbouring "ins" and "outs" in central and eastern Europe.

An option is to invite disappointed applicants to join EU discussions on home and foreign affairs as compensation.

The 10 central and east European applicants are the Czech Republic, Poland, Hungary, Slovakia, Slovenia, Bulgaria, Romania and the Baltic states.

Despite enthusiasm for a multi-speed enlargement in western European capitals, the central and eastern Europeans are worried about delaying tactics.

The Commission's view that 2002 is the earliest likely accession date indicates that Nato enlargement will precede EU enlargement to the east.

The Commission argues that 2002 is realistic given the unprecedented complexity of conducting accession negotiations with as many as 10 former command economies whose combined gross national product is less than that of the Netherlands.

Other factors pushing for a delay are uncertainty over the outcome of this year's Maastricht treaty review conference, wrangling over the future size of the EU budget and politically contentious reforms of regional aid and the common agricultural policy.

EU leaders have still to resolve whether to open accession negotiations with all 12 applicant countries or a select few.

Leaders from all candidate countries will attend the second day of the European summit in Florence on Saturday.

Leading official of German trade union set to quit

By Andrew Fisher in Frankfurt

A leading official of IG Metall, Germany's biggest trade union, is expected to resign over heavy losses on property deals relating to its Frankfurt headquarters.

Mr Werner Schreiber is expected to quit as treasurer of the engineering union after a magazine report yesterday claimed that the union lost around DM130m ($84m) by overpaying for its new building and estate agent costs, and failing to occupy another building on which it had signed a long-term contract.

The union said Mr Schreiber's decision to go was a direct result of an article in Der Spiegel, the weekly magazine, which reported on the results of an internal inquiry by IG Metall into the property deals. It said he would resign at a meeting of the union's executive today.

The magazine, which released the article ahead of publication today, said IG Metall had paid DM210m for its twin-towered headquarters in a commercial suburb of Frankfurt – DM90m more than its market value. It had reportedly also paid the estate agents DM10m too much.

In addition, the union had lost DM30m by signing a lease on another Frankfurt office building – whose tenants now include the federal supervisory office for securities trading, responsible for rooting out insider trading – which it then did not occupy.

IG Metall, which did not comment on the contents of the report or its own inquiry, said Mr Schreiber was resigning so the union could discuss what conclusions to draw from the internal audit without regard to his personal position.

Mr Klaus Zwickel, union president, said he respected Mr Schreiber's decision to resign, which was taken regardless of whether he was personally at fault. He said IG Metall, which has some 3m members, would deal with its own report this Friday and draw any necessary lessons from past mistakes.

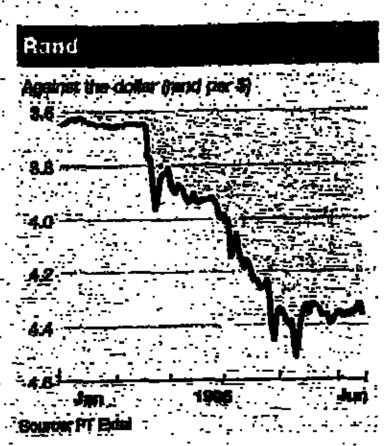
According to Der Spiegel, Mr Zwickel's predecessor, Mr Franz Steinkühler, was also implicated in the union's inquiry which concluded that the transactions were inadequately supervised and carried out unprofessionally.

Mr Steinkühler resigned as IG Metall president in 1993 after buying shares in a Daimler-Benz holding company – Mercedes AG Holding (MAH) – just before the announcement of a share transaction involving MAH which caused its shares to rise sharply. His position became untenable as he was a member of the Daimler-Benz supervisory board.

Although he denied insider trading, he felt obliged to resign when news of his dealings emerged. This was before the insider trading body had been set up and insider trading became a criminal offence.

THE LEX COLUMN

Berlusconi's blockbuster



Source: FT Extel

The prospectus for former Italian prime minister Mr Silvio Berlusconi's television group Mediaset has all the elements of a Hollywood blockbuster. There is political intrigue: can Mr Berlusconi's company persuade his political enemies in the government to overturn or defer a constitutional court judgment forcing the sale of one TV channel? There is corporate intrigue: how can Mediaset justify an amortisation policy at odds with all other European media companies, but substantially boosting Mediaset's profits? And there is no shortage of colour, such as the fact that four of Mediaset's 21 directors are under investigation for false accounting.

The prospectus is brutally honest: indeed, it is hard to locate the sales pitch. The tax rate will rise from 31 per cent in 1995 to 45 per cent this year. The Italian television market looks mature, competition is set to increase and advertising revenue growth is already lagging behind the competition. Moreover, growth in earnings before interest, tax and depreciation/amortisation has been unexciting over the past three years. The biggest attraction is the opportunity to build on Mediaset's existing infrastructure for a third mobile telecoms network. But the licence has yet to be won, while the pay-back would be very long-term.

That is not to say Mediaset's shares may not go up. Mr Berlusconi's 1994 Mondadori share offer lost investors considerable sums. But shares in his financial services business Mediolanum have risen 38 per cent in the fortnight since flotation. Meanwhile, his TV network is doing a great job promoting the Mediaset issue to Italian investors. Given their risk profile, however, it is hard to see the shares as investment grade.

South Africa

Friday's economic package from the South African government was conspicuously longer on reassuring generalities than on specifics. But the markets' downbeat reaction still looks overdone. At the very least, investors' worries about Mr Trevor Manuel, the new finance minister, should have been soothed by a document of which most could have come from an International Monetary Fund textbook.

For a start, the government's new deficit target – 3 per cent of gross domestic product by 1999 – is genuinely tough. To meet it, against a background of slowing growth and ambitious infrastructure plans, Mr Manuel will have little choice but to embark on a pretty aggressive shake-up of the public sector. Likewise, the stress on flexible labour markets looks a ringing shot across the bows of the powerful unions.

Just as important is the plan to use the rand's recent fall as an opportunity to cut tariffs faster. If the government can pull this off, it should minimise the inflationary impact of the depreciation while keeping up pressure on South African industry to sharpen its competitiveness.

Politically, this will all be tricky stuff: without more concrete proposals, sceptics are right to question whether the government can deliver. Its very cautious move on exchange control, and wishy-washy words on privatisation, add to the impression of hesitant nettle-grasping. But the framework could hardly be clearer: nothing in the document suggests the government thinks South Africa can spend its way out of its problems. For such investor-friendly thinking, an ounce more confidence is justified.

UK conglomerates

UK conglomerates have not lost their capacity to disappoint. Since 1990 the sector has dropped 41 per cent against the market, and the decline is accelerating. In 1995, Hanson dragged the sector down, as it became clear that its dividend was unsustainable. Now the rot has spread to BTR, which has seen its shares fall 20 per cent since the start of the year.

Conglomerates, it is said, are just out of fashion. But the recent success of Granada and Bass demonstrates that diversification is not in itself unpalatable. Investors do, though, want to see management grow their businesses. Conglomerates such as Hanson, Tomkins and perhaps Williams relied on squeezing margins in mature businesses rather than investing in growth, and were built on a stream of acquisitions. But turnaround targets are harder to find and investors have had enough of backing mediocre deals with new equity. BTR has been converted to investing in technology and geographical diversification, but it is saddled with a labyrinthine structure, dilutive warrant issues and an excessive dividend which must constrain investment.

Ironically, these break-up artists of the 1980s are looking vulnerable to the break-up themselves. Hanson is the only FT-SE 100 conglomerate trading at a premium to UBS Securities' estimated break-up values, underlining the perception that central management is actually subtracting value. Until these companies can demonstrate greater focus, flexibility and an ability to get a decent return from investing in their existing businesses, the sector will struggle to regain its premium rating.

Tobacco companies

For a mature industry, tobacco is generating quite some growth. Philip Morris, the world's largest cigarette maker, last week predicted a 20 per cent increase in worldwide sales by the turn of the century. In the first five months of 1996, the US group saw cigarette volumes outside its mature home market jump 12 per cent. Nor is the UK's BAT Industries far behind: it reported a 9 per cent rise in tobacco profits for the first quarter of 1996.

While demand in North America and Europe is static or declining, this has been more than made up by growth in developing countries, where consumers are switching to western-style cigarettes. The multinationals, including Philip Morris, BAT and R.J. Reynolds (part of RJR Nabisco) are already well-established in central European countries such as Poland and Hungary. But they have as yet hardly touched China, the world's largest market in unit terms, with an annual consumption four times greater than that of the US.

Of course, litigation remains a concern. BAT alone has fought 700 law suits in the past 40 years. But the tobacco industry has yet to lose a case and won a significant victory last month when the Castano class action was dismissed. At present, litigation is almost entirely confined to the US, making it more of a risk to sentiment than to profits.

Despite this benign outlook, the sector has performed poorly this year. BAT shares in particular have underperformed the UK stock market and now stand at a 30 per cent discount to the market average, while yielding 50 per cent more. They deserve better.

Sinn Féin warned after bomb attack

Continued from Page 1

allowed back into talks on Tuesday. The real world isn't like that." A senior UK minister added: "Everyone must now accept that what is demanded of Sinn Féin must be qualitatively different. We've all given them enough chances."

Mr Bruton said the governments should leave the responsibility to Sinn Féin to find "the words and deeds that will convince people that there never will be violence of this kind in pursuit of political objectives".

In his first response, Mr Adams did not specifically mention the bomb but repeated his call for Sinn Féin to be allowed to join the all-party talks. "This is a time for everyone committed to the objective of lasting peace in Ireland to dig deep and apply ourselves with greater determination to restore the peace process," Mr Adams said.

US officials said they, too, would take a "long hard look" at their approach to the peace process. Mr George Mitchell, the former US senator, is due on Wednesday to chair the first full session of the all-party talks in Belfast, which began acrimoniously on June 10.

Mr Howard did not rule out a return to a policy of internment, not seen in the province since 1976. Mr Andrew Hunter, chairman of the Conservative backbench Northern Ireland committee, said: "I do believe that if IRA violence continues, there is, in theory, a justification for the use of internment, and the time can come for that to be used."

Time running out for accord on UK beef ban ahead of summit

By Neil Buckley in Brussels

Time may be running out to secure agreement on a framework for a phased lifting of the ban on British beef exports and avoid the crisis overshadowing Friday's summit of European Union leaders in Florence, diplomats are warning.

The beef crisis today enters its most crucial week since the ban was imposed on March 27, with a frantic round of meetings fixed in an attempt to reach agreement by Friday.

EU leaders are anxious to end the most serious threat to relations since the exchange rate mechanism crisis of 1992, and avoid the Florence summit being "hijacked" by beef. The UK also wants to end its non-co-operation policy with EU business, but will do so only when it has a satisfactory agreement.

Contacts continued all weekend between European Commission and UK officials, following a broadly positive response – though with some reservations – from EU veterinary experts last Friday to the UK's eight-page, five-step framework.

Officials warn time is short. They say the UK insistence that any framework agreement should include a commitment to early completion of the first step – lifting the ban on exports to non-EU countries – is complicating matters. The Commission fears it will be hard to stop British beef exported to third countries from being re-exported into the EU.

The best Mr John Major, UK prime minister, may be able to secure at Florence is a "fig leaf" commitment to agreement based on the UK document, once details have finally been agreed.

It is uncertain whether this would be enough to end the UK's blocking tactics.

Negotiations pass through several stages this week:

Today: EU foreign ministers in Rome discuss the UK's framework document, and vets' reactions, over lunch.

Mr Jacques Santer, Commission president, is also expected to hold discussions with Mr Malcolm Rifkind, UK foreign secretary, and Mr Lamberto Dini, foreign minister of Italy, which holds the EU presidency.

Tomorrow: European commissioners in Strasbourg will hear reports from Mr Franz Fischler, agriculture commissioner, and from Mr Santer, before attempting to agree a proposal for agreement at Florence.

Wednesday: The European Court of Justice in Luxembourg will hear the UK's complaint that the Commission exceeded its powers in imposing the ban – but is unlikely to rule on whether to suspend the ban, pending a full hearing, for another fortnight. In Brussels, veterinary experts will try to reach qualified majority agreement on the UK's 120-page plan for eradicating BSE, or "mad cow" disease.

Friday: EU leaders in Florence will consider the Commission's framework proposal.

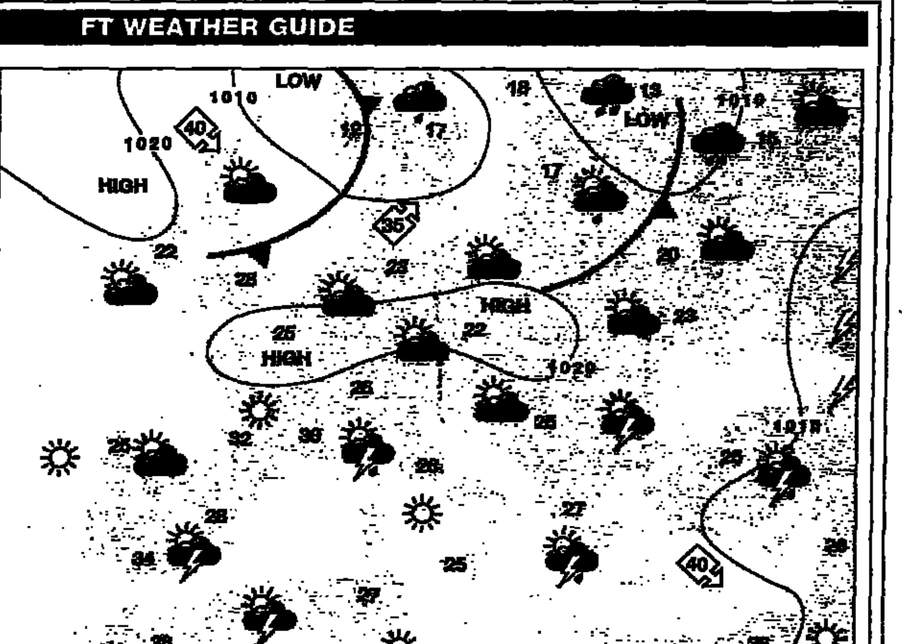
FT WEATHER GUIDE

Europe today

Most of the continent will be sunny but a new low pressure system will bring cloud and rain to north-western Europe. Norway will have the wettest conditions but Sweden will also have rainy periods developing during the day. Showers will occur in north-western Scotland, but the rest of the British Isles will be mostly sunny. Western and central Europe will also have frequent sunshine with temperatures ranging from 22C in the North Sea countries to 32C in southern France. The Mediterranean and the Balkans will be sunny and warm but a few thunder showers will occur in Spain, the southern Alps, Greece and Romania. In Russia, the Moscow region will be cloudy with rain.

Five-day forecast

Scandinavia will be changeable and rather cool with frequent periods of rain. Cooler air will penetrate into the British Isles and the northern regions of central Europe, promoting partly cloudy skies and an occasional shower tomorrow and on Wednesday. A low with thunder will affect western Europe from Thursday. High pressure will build over the Mediterranean resulting in ample sunshine and fewer showers.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius																
Abu Dhabi	sun	43	Beijing	shower	29	Caracas	sun	31	Faro	sun	27	Madrid	fair	32	Rangoon	shower	29
Accra	shower	28	Belfast	fair	20	Cardiff	fair	23	Frankfurt	sun	26	Majorca	sun	28	Reykjavik	sun	13
Algiers	fair	27	Belgrade	fair	25	Casablanca	fair	26	Geneva	sun	27	Malta	sun	26	Rio	sun	27
Amsterdam	fair	24	Berlin	fair	24	Chicago	thund	23	Gibraltar	sun	23	Manchester	fair	22	Rome	sun	27
Athens	sun	33	Bermuda	fair	25	Cologne	sun	26	Glasgow	fair	19	Manila	fair	33	S. Frsco	fair	20
Atlanta	thund	33	Bogota	thund	18	Dakar	fair	32	Hamburg	fair	22	Melbourne	cloudy	15	Seoul	drzzl	28
B. Aires	cloudy	8	Bombay	rain	33	Dallas	fair	36	Helsinki	fair	22	Mexico City	shower	20	Singapore	cloudy	32
B.ham	sun	26	Brussels	sun	25	Delhi	sun	39	Hong Kong	rain	29	Miami	thund	31	Stockholm	rain	20
Bangkok	thund	34	Budapest	fair	23	Dubai	sun	43	Honolulu	shower	31	Milan	fair	28	Strasbourg	sun	27
Barcelona	sun	26	C.hagen	cloudy	20	Dublin	sun	22	Istanbul	fair	24	Montreal	shower	24	Sydney	rain	15
			Cairo	sun	34	Dubrovnik	fair	26	Jakarta	fair	32	Moscow	rain	15	Tangier	fair	26
			Cape Town	cloudy	16	Edinburgh	fair	18	Jersey	fair	20	Munich	sun	25	Tel Aviv	fair	28
									Karachi	fair	36	Nairobi	fair	22	Tokyo	rain	24
									Kuwait	sun	45	Naples	fair	29	Toronto	fair	26
									L. Angeles	fair	25	Nassau	fair	32	Vancouver	fair	17
									Las Palmas	fair	25	New York	thund	29	Venice	shower	28
									Lima	cloudy	18	Nice	fair	27	Vienna	fair	21
									Lisbon	sun	30	Nicosia	fair	31	Warsaw	fair	21
									London	sun	26	Oslo	rain	18	Washington	thund	33
									Lux.bourg	sun	25	Paris	sun	27	Wellington	fair	9
									Lyon	sun	28	Perth	cloudy	16	Winnipeg	thund	18
									Madeira	fair	22	Prague	cloudy	22	Zurich	sun	26